

PRESIDENT QUEZON

Copy No. 2 for

The President of the Philippines.

LETTER OF TRANSMITTAL TO THE HONORABLE MANUEL L. QUEZON,
PRESIDENT OF THE COMMONWEALTH OF THE PHILIPPINES

JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS

Washington, D. C.

May 20, 1938

The Honorable
Manuel L. Quezon,
The President of the Philippines,
Manila, P. I.

Mr. President:

I have the honor to transmit herewith, for your consideration, one of the two signed originals of the Report of the Joint Preparatory Committee on Philippine Affairs constituted on April 14, 1937, by the President of the United States acting in accord with you. To this copy the signature of Mr. Joaquin M. Elizalde has been affixed on his behalf by the Honorable Quintin Paredes; and space is reserved for the signature which the Honorable José Yulo may desire to affix in person.

I am transmitting to the Honorable Francis B. Sayre, Chairman of the Interdepartmental Committee on Philippine Affairs, for consideration by that Committee and for eventual reference to the President of the United States, the other original copy of the Report, to which the signatures of Secretary Yulo and Mr. Elizalde have been affixed on their behalf by Commissioner Paredes.

While availing myself of the kind offer of Commissioner Paredes to take to you the original of the Report, I am, for your earlier information, sending to you by air mail an unsigned copy.

I enclose herewith, for your information, a copy of my letter of transmittal to Assistant Secretary Sayre.

Very truly yours,

J. V. A. MacMURRAY,
Chairman, Joint Preparatory Committee
on Philippine Affairs.

Enclosures:

Report (one original,
and copy No. 2).

Copy of letter to
Assistant Secretary
Sayre.

LETTER OF TRANSMITTAL TO THE HONORABLE FRANCIS B. SAYRE,
ASSISTANT SECRETARY OF STATE, AND CHAIRMAN OF THE
INTERDEPARTMENTAL COMMITTEE ON PHILIPPINE AFFAIRS

JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS

Washington, D. C.

May 20, 1938

The Honorable
Francis B. Sayre, Chairman,
The Interdepartmental Committee
on Philippine Affairs,
Washington.

Sir:

I have the honor to transmit herewith, for consideration by your Committee and for eventual reference to the President, one of the two signed originals of the Report of the Joint Preparatory Committee on Philippine Affairs constituted on April 14, 1937, by the President acting in accord with the President of the Philippines. To this copy, the signatures of the Honorable José Yulo and of Mr. Joaquin H. Elizalde have been affixed on their behalf by the Honorable Quintin Paredes, Resident Commissioner of the Philippines.

I am also enclosing for your convenience an unsigned copy of the Report.

I am availing myself of the courteous offer of Commissioner Paredes to take to President Quezon the other original copy of the Report, to which Mr. Elizalde's signature has been affixed by the Commissioner, and in which a space is reserved for the signature of Secretary Yulo, in order that he may sign the report himself when it shall have been received in Manila. At the same time I am sending to President Quezon by air mail an unsigned copy of the Report.

I enclose herewith, for your information, a copy of my letter of transmittal to President Quezon.

Very truly yours,

J. V. A. MacLURRAY,
Chairman, Joint Preparatory Committee
on Philippine Affairs.

Enclosures:

Report (one original
and copy No. 1).
Copy of letter to
President Quezon.

MESSAGE FROM PRESIDENT FRANKLIN D. ROOSEVELT
TO THE HONORABLE MANUEL L. QUEZON, PRESIDENT
OF THE PHILIPPINES

May 20, 1938.

"I hasten to congratulate you upon the unanimity with which agreement on its report has been reached by the Joint Preparatory Committee on Philippine Affairs which was constituted by arrangement between us a year ago. I am hopeful that the findings and recommendations of the Committee may provide a sound and adequate basis for action supplementing the Independence Act in such a way as to afford the Philippines opportunity to adjust their economy to the situation which a separate political status will entail. Let me heartily wish you and your people all success in the achievement of that undertaking.

"After I have had an opportunity to study this report I shall desire to confer with you about its release to the public, and later about the steps which should be taken here and in the Philippines to effectuate the Committee's recommendations."

RADIOGRAMS SENT TO THE HONORABLE MANUEL L. QUEZON,
PRESIDENT OF THE COMMONWEALTH OF THE PHILIPPINES,
BY THE HONORABLE FRANCIS B. SAYRE AND THE HONORABLE
J. V. A. MacMURRAY, ON THE OCCASION OF THE SIGNING
OF THE REPORT OF THE JOINT PREPARATORY COMMITTEE ON
PHILIPPINE AFFAIRS

May 20, 1938

From Mr. Sayre:

"I feel happy that the work of the Joint Philippine-American Committee initiated as a result of our discussions and common desires during the winter of 1937 has come to happy fruition in the signing of a unanimous report today. I hope with all my heart that the plans thus given definite outline may result in sound and stable foundations for Philippine independence and for the continuing and increasing welfare of the Philippine people. My very sincere good wishes go out to them and to you."

- - - - -

From Mr. MacMurray:

"The Joint Preparatory Committee on Philippine Affairs has today signed its report."

"I have had great satisfaction in participating with my Filipino and American colleagues in working out what I hope will prove a helpful contribution to the solution of the economic problems of the Philippines."

"Allow me to add my warmest personal good wishes."

MESSAGE TO THE HONORABLE J. V. A. MacMURRAY
FROM THE HONORABLE FRANCIS B. SAYRE, ON THE
OCCASION OF THE SIGNING OF THE REPORT OF THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE
AFFAIRS

May 20, 1938

"Assistant Secretary of State
Washington

May 18, 1938

"My dear Mr. MacMurray:

Will you, as Chairman of the Joint Preparatory Committee, please convey to the members of the Committee my regret that an official speaking engagement will prevent my being present when the Committee's report is signed. I feel that the occasion is a significant one in the history of the relations between the United States and the Philippines. A task mutually undertaken last year on behalf of the two countries has now been brought to a close by means of careful research, patient exploration and close cooperative effort. All of us and especially the members of the Committee may well feel most gratified at this happy conclusion of so important a work.

"Sincerely yours,

"FRANCIS B. SAYRE

"The Honorable
John V. A. MacMurray,
Chairman, Joint Preparatory Committee
on Philippine Affairs,
Department of State,
Washington, D. C."

DEPARTMENT OF STATE

FOR THE PRESS

MAY 20, 1938

NO. 237

CONFIDENTIAL RELEASE FOR PUBLICATION AT 12:00 NOON,
EASTERN STANDARD TIME, FRIDAY, MAY 20, 1938.
NOT TO BE PREVIOUSLY PUBLISHED, QUOTED FROM OR
USED IN ANY WAY.

The Joint Preparatory Committee on Philippine Affairs today signed its report and submitted it simultaneously to the Honorable Francis B. Sayre, Assistant Secretary of State, as Chairman of the Interdepartmental Committee on Philippine Affairs, for consideration and eventual reference to the President of the United States, and to the President of the Philippines. It is not contemplated that the report will be made public until agreement as to the time and manner of its release shall have been reached between President Roosevelt and President Quezon.

In accordance with the terms of the Independence Act of 1934, the Philippines will attain independence on July 4, 1946, and preferential trade with the United States will be terminated on that date. The Joint Committee was constituted on April 14, 1937, by arrangement between the President of the United States and the President of the Philippines, for the purpose of studying trade relations between the Philippines and the United States, and making recommendations as to the means of terminating the existing trade preferences at the earliest practicable date consistent with affording the Philippines a reasonable opportunity to adjust its national economy. The American members of the Committee were appointed by the President of the United States upon recommendation of the Interdepartmental Committee on Philippine Affairs, and the Philippine members by the President of the Philippines. The Honorable Francis B. Sayre, Assistant Secretary of State, acted as Chairman of this group until July 13, 1937, when the Honorable J. V. A. MacMurray, Ambassador to Turkey, was detailed to act as Chairman of the Committee.

The membership of the Committee, as at present constituted, is as follows: The Honorable José Yulo, Secretary of Justice of the Philippine Commonwealth, Vice Chairman of the Committee, and Chairman of the Philippine Group; Mr. Joseph E. Jacobs, Chief of the Office of Philippine Affairs, Department of State, Vice Chairman of the Committee, and Chairman of the American Group; Mr. Louis Domeretzky, Chief of the Division

of

of Regional Information, Bureau of Foreign and Domestic Commerce, Department of Commerce; Dr. Ben D. Dorfman, Chief Economic Analyst, United States Tariff Commission; Mr. Joaquin M. Elizalde, Member of the Philippine National Economic Council; Colonel Donald C. McDonald, Assistant to the Chief, Bureau of Insular Affairs, War Department; The Honorable Quintin Paredes, Resident Commissioner for the Philippines; Mr. Benito Razon, Financial Adviser to the President of the Philippines; Dr. Carl E. Robbins, Head Agricultural Economist, Agricultural Adjustment Administration, Department of Agriculture; The Honorable Jose E. Romero, Floor Leader, Majority Party in the Philippine National Assembly; The Honorable Manuel Roxas, member of the Philippine National Assembly; and Dr. Frank A. Waring, Chief Economic Analyst, United States Tariff Commission.

In connection with its work, the Joint Committee conducted public hearings in Washington (June 15, 17, 18, 22 and 23, 1937), in San Francisco (July 21 and 22, 1937), and in Manila (September 15, 16, 17, 20, 21 and 22, 1937). Briefs were filed not only by those who appeared at the public hearings but also by other interested parties.

The basic plan underlying the recommendations of the Committee is that, instead of assessing the full tariff duties on each other's products in 1948, the two countries will then assess 25 percent of their prevailing rates of duty, and thereafter annually increase these rates by 5 percent of the prevailing duties, until the complete elimination of preferences is brought about at the close of the year 1960.

C O N F I D E N T I A L

REPORT OF
THE JOINT PREPARATORY COMMITTEE
ON
PHILIPPINE AFFAIRS

Washington, D. C.

May 20, 1938

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C O N F I D E N T I A L

REPORT OF
THE JOINT PREPARATORY COMMITTEE
ON
PHILIPPINE AFFAIRS

PART I
INTRODUCTION

PART I - INTRODUCTION

1. Organization and Purpose of the Committee

The Joint Preparatory Committee on Philippine Affairs was created on April 14, 1937, pursuant to an arrangement between the President of the United States and the President of the Philippines. The functions of the Committee were announced on March 18, 1937, in the following joint statement of President Manuel L. Quezon and the Honorable Francis B. Sayre, Assistant Secretary of State:

"Arrangements are being made for the appointment shortly of a joint preparatory committee of American and Philippine experts. The committee is to study trade relations between the United States and the Philippines and to recommend a program for the adjustment of Philippine national economy. This announcement followed conferences between President Quezon of the Philippine Commonwealth and the Inter-departmental Committee on Philippine Affairs, which is acting on behalf of President Roosevelt in the preliminary discussions. Assistant Secretary of State, Francis B. Sayre, is Chairman of this Committee.

"Inasmuch as the Independence Act provides that complete political independence of the Philippines shall become effective on July 4, 1946, and inasmuch as President Quezon has suggested that the date of independence might be advanced to 1938 or 1939, it was agreed that the joint committee of experts would be expected in making its recommendations to consider the bearing which an advancement in the date of independence would have on facilitating or retarding the execution of a program of economic adjustment in the Philippines. It was further agreed that preferential trade relations between the United States and the Philippines are to be terminated at the earliest practicable date consistent with affording the Philippines a reasonable opportunity to adjust their national economy. Thereafter, it is contemplated that trade relations between the two countries will be regulated in accordance with a reciprocal trade agreement on a non-preferential basis."^{1/}

The American members of the Joint Preparatory Committee on Philippine Affairs were appointed by the President of the United States and the Philippine members by the President of the Philippines. The Honorable Francis B. Sayre, Assistant Secretary of State, acted as Chairman of the Committee until July 13, 1937, when the Honorable J. V. A. MacMurray, Ambassador to Turkey, was appointed Chairman.

The membership of the Committee as originally constituted on April 14, 1937, was as follows:

The Honorable José Yulo, Vice Chairman of the Committee, Chairman of the Philippine Group, Secretary of Justice of the Philippine Commonwealth;
Mr. Joseph E. Jacobs, Vice Chairman of the Committee, Chairman of the American Group, Chief of the Office of Philippine Affairs, Department of State;
Dean Conrado Benitez, College of Business Administration, University of the Philippines;
Mr. Louis Domeratzky, Chief of the Division of Regional Information, Bureau of Foreign and Domestic Commerce, Department of Commerce;
Dr. Lynn R. Edminster, Chief Economic Analyst, Division of Trade Agreements, Department of State;
Mr. Joaquin M. Elizalde, Member of the Philippine National Economic Council;
Colonel Donald C. McDonald, Assistant to the Chief, Bureau of Insular Affairs, War Department;
The Honorable Quintin Paredes, Resident Commissioner for the Philippines;
Dr. Carl B. Robbins, Head Agricultural Economist, Agricultural Adjustment Administration, Department of Agriculture;
The Honorable José E. Romero, Floor Leader, Majority Party in the Philippine National Assembly;
The Honorable Manuel Roxas, Floor Leader, Minority Party in the Philippine National Assembly; and
Dr. Frank A. Waring, Chief Economic Analyst, United States Tariff Commission.

Subsequently, two members of the Committee, Dr. Lynn R. Edminster and Dean Conrado Benitez, because of the pressure of other duties, resigned. They were replaced by two new appointees who, prior to their appointment, had been advisers to the Committee, namely:

Dr. Ben D. Dorfman, Chief Economic Analyst, United States Tariff Commission, appointed alternate for Dr. Edminster on July 14, 1937, and a member on January 19, 1938; and Mr. Benito Razon, Financial Adviser to the President of the Philippines, appointed January 27, 1938.

The Committee has been assisted in its work at different times and for varying periods by a number of advisers and others, namely: Dr. Ben D. Dorfman and Mr. Benito Razon, who subsequently became members of the Committee, as mentioned above; Major Myron J. Conway, Infantry, United States Army; Mr. Owen L. Dawson, United States Agricultural Commissioner at Shanghai; Mr. William A. Lloyd, Senior Agriculturist, Department of Agriculture; Dr. George F. Luthringer, Assistant Professor in Economics, Princeton University; Dr. Julius Matz, Pathologist, Bureau of Plant Industry, Department of Agriculture; Lieutenant Colonel Arsenio Natividad of the Philippine Army; Dr. Lloyd P. Rice, Professor of Economics, Dartmouth College; and Mr. Hilarion S. Silayan, Chief of the Philippine Bureau of Plant Industry. In addition, the Committee was assisted in various ways by numerous other individuals connected with the administrative departments of the Government of the United States and the Government of the Commonwealth of the Philippines.

In connection with its work, the Committee conducted public hearings in Washington (June 16, 17, 18, 22 and 23, 1937), in San Francisco (July 21 and 22, 1937), and in Manila (September 15, 16, 17, 20, 21 and 22, 1937). Briefs were filed not only by those who appeared at the public hearings but also by other interested parties. The transcript of the public hearings and texts of the briefs filed will be found in the Supplement to this report. During its three months' stay in the Philippines,^{1/} the Committee spent about a month visiting thirty-four of the fifty provinces and covered approximately 4000 miles, by motor car, steamer and railway.

The findings and conclusions of the Committee are discussed in Parts II, III, IV, V, and VI, and its principal recommendations are set forth in Part VII of the report.

^{1/} "Philippines" (in the singular), has been used throughout this report instead of "Philippine Islands", as that is the name used in the Philippine Constitution.

2. Political and Economic Relationship between the United States
and the Philippines^{1/}

The United States acquired sovereignty over the Philippines under Article III of the Treaty of Peace between the United States and Spain, concluded at Paris on December 10, 1898, and proclaimed April 11, 1899. The United States began the organization of a civil government in the Philippines with the appointment, on April 7, 1900, of the Second Philippine Commission, composed of five Americans. Civil government was fully established on July 4, 1901, when the Honorable William Howard Taft was inaugurated as the first Civil Governor^{2/} of the Philippine Islands, and the Commission was reconstituted to consist of five Americans and three Filipinos.

On October 16, 1907, when the first elective Philippine Assembly was convened, the legislative authority in the Islands was placed in the hands of the Philippine Legislature, which consisted of the Commission as the upper house and the Assembly as the lower house. The Commission was abolished by the Jones Act of August 29, 1916,^{3/} which provided for a Philippine Senate as the upper house in the Legislature; thus placing legislative functions completely in the hands of the representatives of the Filipino people. The Governor General remained the chief execu-

^{1/} For general background material on Philippine economy, see United States Tariff Commission Report No. 118, second series 1937, entitled "United States-Philippine Trade".

^{2/} Pursuant to the provisions of Section 8 of the Act of February 6, 1905, the title "Civil Governor" was changed to "Governor General".

^{3/} 39 Stat. 545.

tive officer of the Insular Government.

On November 15, 1935, the Government of the Commonwealth of the Philippines, possessing almost complete autonomy in internal affairs, was inaugurated under authority of the Independence Act of March 24, 1934 (the Tydings-McDuffie Act).^{1/} On the same date a Constitution, drafted and adopted by the Filipino people and approved by the President of the United States, came into full effect. Under the provisions of the Constitution, the legislative authority was placed in the hands of a unicameral legislature, known as the National Assembly, and executive power was vested in the President of the Philippines. Under the Independence Act, the representative of the United States in the Philippines was entitled the United States High Commissioner to the Philippine Islands.

Since the earliest days of the American occupation, there has been a progressive enlargement of the autonomy granted to the Philippines, with complete political independence as the ultimate objective. In contrast to this development in the political sphere, the economic ties, based on trade preferences have steadily become stronger.

From August 13, 1898, until March 8, 1902, trade between the United States and the Philippines was on a non-preferential basis. Under the United States Revenue Act of March 8, 1902,^{2/}

^{1/} 48 Stat. 456. See Appendix I.
^{2/} 32 Stat. 54.

Philippine products were accorded a reduction of 25% from rates specified in the United States tariffs, but no preferences were accorded American products entering the Philippines until after the passage of the United States Tariff Act^{1/} and the Philippine Tariff Act,^{2/} both dated August 5, 1909. That legislation marked the beginning of free trade between the two countries, subject only to minor restrictions. Reciprocally preferential trade would not have been possible prior to that year because of a provision in the Treaty of Paris which guaranteed for a ten-year period (commencing April 11, 1899) to Spanish ships and merchandise entering the Philippines the same treatment accorded those of the United States. The United States Tariff Act of October 3, 1913, removed the few remaining restrictions on free trade between the Philippines and the United States. Thereafter no important change occurred in the laws governing trade relationship until the passage of the Independence Act on March 24, 1934.

The Independence Act, while imposing no restrictions upon United States products entering the Philippines, placed restrictions upon the quantities of Philippine sugar, coconut oil and cordage which could enter the United States free of duty; it required, in addition, the imposition by the Philippines,

^{1/} 36 Stat. 11.
^{2/} 36 Stat. 130.

beginning November 15, 1940, of export taxes upon Philippine products shipped to the United States; and provided that upon the attainment of independence, Philippine products should pay the full United States customs duties. The Act also provided for a trade conference to make recommendations concerning trade relations after independence. Following the passage of the Independence Act, other restrictions in the form of excise taxes and quotas were placed on sugar and coconut products, but the proceeds of these taxes have been and are being remitted to the Philippine Government.^{1/} The provision in the Independence Act with regard to cordage was superseded by the Cordage Act of June 14, 1935,^{2/} which, although it increased the duty-free quota, made it an absolute quota.

^{1/} The term "Philippine Government" has been used generally throughout this report to designate the government or governments to which reference is made, without differentiation among the Insular Government, the Commonwealth Government, and the independent Government, which have been specifically mentioned only where the text requires.

^{2/} 49 Stat. 340.

3. Objections to the Provisions of the Independence Act

Section 17 of the Independence Act provided that the Act was not to take effect until accepted by concurrent resolution of the Philippine Legislature. Although the Act did not authorize the Philippine Legislature to make its acceptance conditional upon reservations, that body, in its Resolution of May 1, 1934, accepting the Independence Act, included the following passages:

"WHEREAS, although the Philippine Legislature believes that certain provisions of the said Act need further consideration, the said Legislature deems it its duty to accept the proffer of independence thus made by the Government of the United States; ...

"(b) And because the President of the United States in his message to Congress on March second, nineteen hundred thirty-four, recommending the enactment of the said law, stated

"'I do not believe that further provisions of the original law^{1/} need to be changed at this time. Where imperfections or inequalities exist, I am confident that both can be corrected after proper hearing and in fairness to both peoples.';

a statement which gives the Filipino people reasonable assurances of further hearing and due consideration of their views: ..."^{2/}

Provisions in the earlier Hare-Hawes-Cutting Act, to which the Philippine Legislature had taken exception in rejecting that Act, and which it had hoped to have changed in the Tydings-McDuffie Act, related to "immigration, military, and other

^{1/} The Hare-Hawes-Cutting Act. 47 Stat. 761.

^{2/} House Document No. 400, 74th Congress, 2d Session, page 1.

reservations, powers of the high commissioner, and trade relations between the islands and the United States".^{1/}

With regard to the Independence Act, the Honorable Manuel L. Quezon, then President of the Philippine Senate and Chairman of the Philippine Independence Delegation, in a letter, dated March 22, 1934 (two days before the passage of the Act), to the Chairman of the United States Senate Committee on Territories and Insular Affairs, Senator Millard E. Tydings, stated as follows:

"There are, of course, other provisions of the bill to which we object, but we are willing to take it as it is now, and we have given up any attempt at this time to have it in any way amended, because we are relying upon the statement made by the President in his message to Congress, March 2, 1934 ...

"Furthermore, we have seen the attitude of the chairmen of both committees of Congress toward the Filipino people's freedom and welfare, and we have no doubt that upon further investigation, when they shall have found that independence can be granted in a much shorter time and that other provisions of the bill need improvement, they will so recommend to the Congress."^{2/}

Moreover, Vice President John N. Garner, in his speech at the Joint Session of the Philippine Legislature on November 12, 1935 (three days before the inauguration of the Commonwealth Government), stated:

"Our great President, Franklin D. Roosevelt, in sending the last independence bill to Congress, accompanied it with a recommendation that where there were inequalities in our trade relations, they should be adjusted by a Commission representing both peoples who could arrive at an equitable decision which would prove advantageous to our 120,000,000 people and to your 14,000,000 people."^{3/}

^{1/} Senate Document No. 57, Part 1, page 10, 74th Congress, 1st Session.
^{2/} Congressional Record, Volume 73, March 22, 1934, No. 64, page 5237.
^{3/} House Document No. 400, page 44, 74th Congress, 2d Session.

The statements quoted evidence a recognition by responsible authorities in both countries that certain "imperfections or inequalities" might be found in the Independence Act, and, if so, that they should be adjusted.

Steps taken to remove objections

In the light of these statements, steps were taken, even before the inauguration of the Commonwealth Government, to investigate what, if any, "imperfections or inequalities" there might be in the provisions of the Independence Act. United States Senator Carl Hayden visited the Philippines and prepared a report of his findings in the form of a letter, dated August 6, 1934, addressed to the Honorable Millard E. Tydings, Chairman of the Senate Committee on Territories and Insular Affairs.^{1/} Four others, United States Senators Tydings, McKellar, McAdoo and Gibson, appointed on June 16, 1934, as a special committee to study the question of "imperfections or inequalities" of the Independence Act, also visited the Philippines for about three weeks, beginning December 9, 1934; as a result of which, Senator McKellar and Senator Gibson submitted reports to the United States Senate.^{2/}

^{1/} Senate Document No. 120, 74th Congress, 1st Session.
^{2/} Senate Document No. 57, Parts 1 and 2, 74th Congress, 1st Session.

Organization of the Interdepartmental Committee on
Philippine Affairs

The Congressional Committee referred to in the preceding paragraph, while in the Philippines, suggested to President Roosevelt, in a telegram dated December 31, 1934, that the Interdepartmental Committee on Philippine Affairs, which was then in the process of being organized, should study United States-Philippine trade. The Interdepartmental Committee has, since the close of the year 1934, directed studies of Philippine problems in an endeavor to coordinate the activities of the various administrative departments and agencies of the United States Government concerned with Philippine affairs. The Committee is not an administrative organization of the Government, but representatives of the Departments of State, War, Navy, Treasury, Agriculture, and Commerce, and the Tariff Commission have participated in its deliberations. It was this Committee that recommended the setting up of the Joint Preparatory Committee on Philippine Affairs.

Steps taken in preparation for a trade conference

On April 4, 1935, at a meeting which was attended by the Honorable Frank Murphy, then Governor General of the Philippines, the Interdepartmental Committee decided to recommend to the President of the United States that he should make public his intention to call a Philippine-American trade conference as soon as practicable after the inauguration of the Commonwealth Govern-

ment. Acting upon this recommendation, the President, on April 10, 1935, made public the following letter:

"My dear Governor General:

"As you know, consideration is being given by this Government to the question of future relations between the United States and the Philippines. These relations have been the subject of conferences which you and I have had during your visit in Washington. As a result of these discussions I contemplate calling the joint trade conference provided for in Section 13 of the Tydings-McDuffie Act at as early a date as practicable after the inauguration of the Commonwealth government, in order that effective measures for promoting mutual trade advantages between the two countries may be given early consideration.

"To facilitate the work of the conference I have asked our Interdepartmental Committee to continue studies already begun so that the necessary basic material will be available when the conference convenes. I trust you will also be able to inaugurate similar studies in the Philippine Islands which will provide pertinent data for consideration by the conference.

"Sincerely yours,

"FRANKLIN D. ROOSEVELT"

Report of the United States Tariff Commission

In keeping with the President's announcement, the Interdepartmental Committee, on July 13, 1935, designated three experts to prepare material for the contemplated trade conference: Dr. Frank A. Waring and Dr. Ben D. Dorfman, Senior Economic Analysts of the United States Tariff Commission, and Mr. J. Bartlett Richards, United States Trade Commissioner in Manila. As a result of their studies, the United States Tariff Commission in January, 1937, published a report under the title

"United States-Philippine Trade, with Special Reference to the Philippine Independence Act and Other Recent Legislation".^{1/}

This material has been freely drawn upon by the Joint Preparatory Committee for incorporation in the present report.

Philippine Technical Trade Committee's Report

While studies were being conducted by officials of the United States Government, similar preparations were also being carried on in the Philippines. The Governor General of the Philippines on July 9, 1935, appointed for this purpose the Philippine Interdepartmental Economic Committee, and a Technical Trade Committee under the chairmanship of Mr. Benito Razon.^{2/} The Technical Trade Committee created under this Executive Order submitted to the President of the Commonwealth on February 17, 1936, a report on Philippine-American trade. This report has also been used by the Joint Preparatory Committee.

Organization of the Joint Preparatory Committee on Philippine Affairs

In December, 1936, on the eve of relinquishing his post, High Commissioner Frank Murphy came to Washington to discuss with the President and other officials of the United States Government plans for a reconsideration of United States-Philippine relations. Following these discussions, President Quezon arrived

^{1/} United States Tariff Commission Report No. 118, second series, 1937.

^{2/} Philippine Executive Order No. 780 of July 9, 1935.

in Washington in February, 1937; and, at the request of the President of the United States, entered into discussions of United States-Philippine problems with the Honorable Francis B. Sayre, Assistant Secretary of State and Chairman of the Inter-departmental Committee on Philippine Affairs. These discussions led to an agreement between President Quezon and Assistant Secretary Sayre, which was later approved by President Roosevelt, that a committee, to be known as the Joint Preparatory Committee on Philippine Affairs, should be created to study trade relations between the United States and the Philippines and to recommend a program for the adjustment of the Philippine national economy. This Committee was constituted on April 14, 1937. Certain details in regard to the setting up of the Committee and the nature of its duties will be found in an identic letter which Assistant Secretary of State Sayre addressed on May 24, 1937, to Senator Millard E. Tydings and Congressman Leo Kocialkowski.^{1/}

^{1/} See Appendix II.

4. Committee's Terms of Reference^{1/}

In its approach to the question of the trade relations between the United States and the Philippines and the adjustment of Philippine economy, the Committee has followed certain principles, both of guidance and of circumscription, which were laid down in the Independence Act of March 24, 1934, and in the agreement of March 18, 1937, between President Quezon and Assistant Secretary Sayre, quoted on the first page of this part of the report.

From an early stage in the discussions with their Philippine colleagues, the American members had also in mind a suggestion of President Roosevelt that an orderly transition of Philippine economy might require a considerable period for adjustment--a suggestion which, in the course of discussion, was eventually elaborated into the Committee's recommendation for a gradual elimination of trade preferences by the end of the year 1960, as approved in an exchange of telegrams between President Roosevelt and President Quezon in March, 1938.^{2/}

^{1/} The Committee's terms of reference did not contemplate recommendations with respect to such questions as the postponement of independence, the neutralization of the Philippines, and the retention or relinquishment of naval reservations.

^{2/} The pertinent paragraphs of a Department of State press release, dated April 5, 1938, in regard to this exchange of telegrams are as follows:

"On March 22, President Roosevelt telegraphed to President Quezon an expression of his feeling that the work of the Committee should be pressed to an early and mutually satisfactory conclusion. The President recalled that he had already made publicly known his own readiness, with a view to affording the Philippines ample opportunity to adjust their economy to

(cont'd)

Fundamental among those principles upon which the Committee has acted is an acceptance of the fact that the Independence Act is a definitive mandate of the Congress providing for the independence of the Philippines and outlining the terms under which such independence is to be attained. The provisions of that Act were under discussion in the Congress for several years; and the Committee has studied and considered the voluminous hearings which led up to the enactment of that law. The Committee has felt that it would not be justified, either by its terms of reference or on the ground of practical expediency, in recommending any changes in that Act except such as might be required to remove "imperfections or inequalities" in the sense

the non-preferential status of political independence, to approve of a general plan by which the elimination of trade preferences would proceed by uniform annual accretions of 5 percent, from 25 percent at the date of independence; but he indicated that, except for certain alleviations which he understood the Committee would be prepared to recommend, the export tax provisions of the Independence Act should remain substantially intact as constituting a necessary part of the program of Philippine economic adjustment. The President furthermore suggested that President Quezon join with him in making public their common desire to have the Committee proceed along these lines with a view to reaching an early agreement upon recommendations which would have the whole-hearted support of both sides.

"In a telegram dated March 25, President Quezon replied that he was sending to the Filipino members of the Joint Preparatory Committee a radiogram to the effect that he had, after considering all the attending circumstances, come to the definite conclusion that the best interests of the Philippines would be promoted by their concurring with the American members of the Committee in the plan outlined in the President's telegram."

in which President Roosevelt used that expression in his message to the Congress on March 2, 1934.

The Committee has also been guided by the fact that its terms of reference definitely contemplate that the termination of the preferential trade relationship now existing between the United States and the Philippines should be brought about at the earliest practicable date, consistent with affording the Philippines a reasonable opportunity to adjust their economy to a position independent of trade preferences in the United States.

A further dominant consideration which the Committee has had in mind is the imperative need for stability and certainty as to the nature of the policies of the United States and the Philippines in regard to their future economic relationship, and as to the method of effectuating those policies. In the absence of a reasonable degree of certainty in this regard, various groups, both in the United States and in the Philippines, may be expected to continue agitating for changes favorable to themselves in the relationship between the two countries. Until the future economic relationship between the two countries is definitely determined, there will be no satisfactory basis for the continued economic development of the Philippines, inasmuch as the Philippine authorities would find it difficult to undertake the task of planning and putting into operation a long-range program of economic adjustment which is so necessary for the future well-being of their country.

The Committee recognizes the difficulties of foreseeing and evaluating the national and international economic developments that will affect the United States and the Philippines during the period contemplated by this report, and of prescribing practical solutions for the problems involved in the development of an independent Philippine state. But the situation requires that, despite unpredictable factors, some long-range plan, however broad and general in outline, should be definitely adopted. The Committee believes that the program which it recommends would eliminate much of the existing uncertainty and afford the Philippines a reasonable opportunity to make the necessary transition.

C O N F I D E N T I A L

REPORT OF
THE JOINT PREPARATORY COMMITTEE
ON
PHILIPPINE AFFAIRS

PART II
TRADE RELATIONS

PART II. TRADE RELATIONS

1. UNITED STATES-PHILIPPINE TRADE RELATIONS^{1/}

History of trade relations

American occupation of the Philippines was not immediately accompanied by any tariff changes affecting United States-Philippine trade. From August 13, 1898, to March 8, 1902, products from the United States entering the Philippines, and products from the Philippines entering the United States, were treated in each case on the same terms as similar goods imported from foreign countries.^{2/}

The United States Revenue Act of March 8, 1902, granted to imports of dutiable goods grown or produced in the Philippines when entering the United States, a reduction of 25 percent from the rates specified in the United States tariff. Products of the United States entering the

^{1/} This part of the Committee's report is based on, and is in part a reproduction of, the United States Tariff Commission's report No. 118, second series, 1937, entitled "United States-Philippine Trade - With Special Reference to the Philippine Independence Act and other Recent Legislation." The statistical information, however, has been brought up to a more recent date than that contained in the aforementioned report.

Throughout this part of the Committee's report, the terms "imports" and "exports" are used for convenience to designate shipments between the United States and the Philippines, although these terms are technically incorrect, inasmuch as the Philippines and the United States are not as yet "foreign" to each other.

^{2/} Supplies for the use of the United States Army and Navy and the Philippine Government were admitted free of duty, irrespective of their origin, in the beginning of American occupation. After Aug. 5, 1909, the Philippine Government accorded exemptions on such supplies only if they were imported from the United States or its possessions. The United States Army and Navy paid Philippine duties for a number of years on their imports from countries other than the United States; but, as a result of a ruling by the Comptroller General of the United States on Nov. 2, 1929, the United States Army ceased making such payments after that date, the United States Navy having ceased making such payments in January 1923. The Philippine Government, however, still contends that it has the right to collect duties on the aforementioned imports.

Philippines were not accorded preferential tariff treatment at that time.^{1/}
 The Revenue Act of 1902 also postponed the application of the United States coastwise shipping laws to the Philippine trade, thus permitting vessels of any flag to carry goods between the United States and the Philippines.^{2/}

Reciprocal free trade, subject to minor restrictions, was first instituted between the United States and the Philippines by the provisions of the United States Tariff Act and the Philippine Tariff Act, both dated August 5, 1909. The former imposed restrictions upon the annual quantities of Philippine sugar and tobacco products which might enter the United States duty-free; and it limited the maximum content of non-Philippine or non-United States materials which might be embodied in Philippine manufactures if they were to be admissible duty free into the United States, to 20 percent of their total value.^{3/} Both the United States and the Philippine Tariff Acts specifically exempted rice from duty-free treatment in either country; and they made duty-free trade in

^{1/} Any concessions to American goods would have had to be extended to Spanish goods, since the United States agreed in Article IV of the Treaty of Paris to "admit Spanish ships and merchandise to the *** Islands on the same terms as ships and merchandise of the United States" for a 10-year period dating from April 11, 1899.

^{2/} The United States coastwise shipping laws have never been applied to the Philippines. Under Section 21 of the Merchant Marine Act of June 5, 1920, however, these laws can be extended to the Philippines by Executive action.

^{3/} This percentage of maximum admissible foreign content in duty-free goods was originally suggested by the Connecticut Tobacco Growers' Association to be applicable to wrapper tobacco, for the purpose of preventing the use of other than American wrapper tobacco on cigars permitted duty-free entrance into the United States. The limitation, however, was enacted to be applicable to all classes of Philippine exports to the United States which were not admissible free of duty when entered from other countries.

other commodities conditional upon their receiving no drawback of customs duty upon leaving the Philippines or the United States. The Philippine Tariff Act further provided that export duties would be abolished on shipments made to the United States.

The United States Tariff Act of October 3, 1913, modified only slightly the reciprocal free-trade relations between the Philippines and the United States. The quantity limitations upon duty-free sugar and tobacco products specified in the previous act were removed, inasmuch as they had never been even closely approximated. The provision that rice should not move free of duty between the Philippines and the United States was also eliminated; and all Philippine exports, irrespective of destination, were exempted from export duties.

Until 1934, trade relations between the United States and the Philippines continued on substantially the same tariff basis as they were when the United States Tariff Act of 1913 first became effective. The United States Tariff Acts of September 21, 1922, and June 17, 1930, introduced no modifications of importance. The Philippine Tariff Act of 1909 has never been superseded, and has been modified only slightly by subsequent United States legislation and by several acts of the Philippine Legislature. With few exceptions, present Philippine tariff schedules and rates are the same as those which were in force in 1909. Inasmuch as many of the Philippine duties are specific, their ad valorem equivalents have changed considerably with the marked price shifts which have occurred since that year.

Commencing in 1934, Congress passed several laws which have modified the trade relations between the United States and the Philippines and which, unless altered, will modify them much more markedly in the future. The most important of these is the Philippine Independence Act, also known as the Tydings-McDuffie Act (Public-No. 127-73d Congress). It was approved by the President on March 24, 1934, was accepted by the Philippine Legislature on May 1, 1934, and the trade provisions of the act became effective on November 15, 1935. These latter will be discussed in detail in subsequent paragraphs of this section.

Shortly after the enactment of the Independence Act, but before it became effective, Congress passed the Jones-Costigan Act, the Revenue Act of 1934, and the Cordage Act of 1935. The first of these laws, which was passed on May 9, 1934, authorized the imposition of "absolute" limits on the amounts of sugar which might be imported into the United States from the Philippines.^{1/} The Jones-Costigan Act remained in operation for 3 years, ending May 9, 1937, but quota provisions of the act were continued - first for the remainder of the calendar year 1937 by a law approved June 19, 1936; and later, for 3 more years (ending with 1940), under the provisions of the Sugar Act approved September 1, 1937. The Revenue Act of 1934, approved May 10, 1934, provided among other things,

^{1/} Imports beyond these limits were forbidden, whereas the quotas stipulated in the Independence Act had merely limited the amounts which would be permitted to enter the United States free of duty. On May 9, 1934, the President of the United States proclaimed that the United States duty on sugar from foreign countries other than Cuba would be reduced on June 8, 1934, from 2.5 cents to 1.875 cents per lb. on 96° sugar. This automatically reduced the duty on Cuban sugar from 2 cents to 1.5 cents per pound. On Sept. 3, 1934, when the United States-Cuban Trade Agreement became effective, the duty on Cuban 96° sugar was lowered to 0.9 cent per pound, but no changes were made in the rates applicable to other foreign sugar.

for a processing tax of 3 cents per pound on coconut oil expressed from Philippine copra either in the Philippines or in the United States, and for the remittance of the proceeds of the tax to the Philippine Treasury. This revenue act was modified in some particulars by the Revenue Acts of 1935 and 1936. The Cordage Act of June 14, 1935, doubled the cordage quota provided for in the Independence Act, but changed it from a duty-free to an "absolute" quota. The Cordage Act, which would otherwise have expired on May 1, 1938, was extended for 3 years thereafter by Presidential proclamation dated January 26, 1938; upon expiration of that period, cordage exports will be governed by the provisions of the ^{1/} Independence Act.

With respect to internal revenue taxes, American goods entering the Philippines enjoy no preferential position over like goods produced in the Philippines or imported from other countries; and Philippine goods entering the United States, with the recent exception of copra and coconut oil, occupy a similar nonpreferential tax status in the United States. Since the passage of the United States Tariff Act of 1909, all United States internal revenue collected on Philippine products consumed in the United States has been remitted to the Philippine Treasury. The Philippines, however, makes no similar remittances to the United States.

Congress has never taken any steps implying tariff assimilation of the Philippines. Philippine tariff classifications, rates of duty, and methods of determining dutiable values differ widely from those employed by the United States. Provisions for "flexible", antidumping, countervailing, or contingent duties, such as are found in the United States

^{1/} Section 6(c) and (e).

tariffs, have never been incorporated in Philippine tariffs. The Philippines, moreover, has always been permitted to retain all of its tariff revenue for its own use. Although the United States Congress has reserved the sole right to legislate respecting tariff relations between the Philippines and the United States, the Philippines since 1902 has had the authority to enact any other tariff legislation, subject to the final approval or veto by the President of the United States. Control over Philippine tariff legislation, under the provisions of the Independence Act, will remain unaltered until July 4, 1946, when full legal control will revert to the independent Philippine Government.

Trade provisions of Independence Act

It is convenient to consider the trade provisions of the Independence Act with respect to three time intervals: (1) the first 5 years of the Commonwealth period, dating from November 15, 1935, to November 15, 1940; (2) the second 5 years of the Commonwealth period, dating from November 15, 1940, to July 4, 1946; and (3) the period commencing with July 4, 1946, the date on which the Philippines will become independent.^{1/}

During the first 5-year period, free trade between the United States and the Philippines is to continue on the same basis as heretofore, except that limitations are placed upon the maximum amounts of sugar, coconut oil, and cordage which are permitted to enter the United States duty-free. Any shipments in excess of the quotas, according to the act, are to be assessed the full United States duties. The effects of this provision with respect to all three commodities, however, have been

^{1/} The so-called second 5-year period is actually almost 8 months in excess of 5 years.

variously modified by subsequent legislation. These modifications, which were referred to in the preceding section, will be discussed in detail in subsequent sections dealing with each of the commodities in question.

During the second 5 years of the Commonwealth, the same duty-free quotas will continue to be applicable with respect to the sugar, coconut oil, and cordage shipped to the United States. But the Philippines will be obliged to assess progressively increasing export taxes against these and all other exports to the United States which are not admissible into the United States free of duty when imported from other countries. These export taxes, the proceeds of which will go to the Philippine Treasury, will amount to 5 percent of the prevailing United States duties during the sixth year of the Commonwealth period and will be increased by an additional 5 percent each succeeding year, until in the tenth or last year they will amount to 25 percent of the then existing United States duties.^{1/}

No provision is made in the Independence Act for permitting or requiring the curtailment of imports of United States goods into the Philippines during the Commonwealth period, and the Philippines has no legal power to restrict its imports of United States goods during this period by means of quotas or tariffs.

After the Philippines obtains its complete independence on July 4, 1946, it will no longer be required to levy export taxes upon shipments to the United States. At that time, on the basis of present legislation,

^{1/} Actually the 25 percent duty will be applicable for more than 1 year - Nov. 15, 1944, to July 4, 1946.

the full United States duties will be collected on all Philippine goods arriving in the United States; and presumably the full Philippine duties will be collected on all United States goods arriving in the Philippines. ^{1/}

Anticipated effects of the Independence Act provisions on Philippine economy

It does not appear, on the basis of existing economic conditions in the world, that adequate provision has been made in the Independence Act to permit the realization of the economic objectives for the Philippines sought in the act. On the basis of the present provisions of the act, a number of important enterprises in the Philippines will be forced to liquidate much more rapidly than new enterprises can probably be developed to replace them. Certain industries exporting primarily to the United States will be obliged to discontinue or to curtail their operations, and so likewise will a number of others directly dependent upon them. The Philippines may find it difficult, if not impossible, to develop quickly new varieties of exports which it can market either in the United States or elsewhere, without granting temporary subsidies to private producers or without obtaining tariff concessions from foreign countries. With the loss of preferential treatment for its products in the United States, the Philippines will be obliged to fashion an economy which will be much more self-sufficient than the present one.

The important export industries in the Philippines (on the basis of existing economic conditions in the world) will be variously affected by the progressive export taxes. It appears likely that these taxes will

^{1/} No existing legislation specifically provides that United States products will become subject to full Philippine duties after independence. It may be assumed, however, that the Philippines will not exempt United States goods from duty if at that time Philippine goods become subject to United States duties.

serve primarily to lessen the profitableness, but not the volume, of the exports of sugar to the United States during the Commonwealth period. What the position of the Philippine sugar industry will be when the full United States duties become applicable in 1946 is largely indeterminate, although, on the basis of present sugar prices, the future of the industry does not appear promising.

It is also reasonably certain that with the loss of preferential treatment in the United States market after independence, the Philippines will be obliged either to curtail sharply, or to discontinue altogether, its exports of such commodities as coconut oil, cigars and other tobacco products, embroideries, and pearl buttons. Even before the Philippines becomes independent, it is probable that, because of the export taxes, it will cease exporting to the United States any substantial quantities of these products.

A number of other export industries in the Philippines, although likely to be adversely affected by the provisions of the Independence Act, probably will not be forced out of existence, assuming the continuance of present economic conditions in the world. Cordage, desiccated coconut, straw hats, and canned pineapples may be able to enter the United States in substantial quantities even after the full duties become applicable. Abaca (manila hemp), should it remain on the United States free list, will not be directly affected by the provisions of the act; and "Philippine mahogany", on the basis of present United States legislation, will become subject to very small export taxes during the second half of the Commonwealth period and to a small United States excise tax after

independence. The status of copra, as long as it remains on the United States free list and as long as the present United States excise tax laws remain in force, will not be adversely affected during the Commonwealth period; but it may be adversely affected after independence, should coconut oil derived from Philippine copra become subject to the present non-preferential United States excise tax rate. Leaf tobacco will probably continue to find its chief markets outside the United States; and gold will probably continue to be acceptable without serious restrictions either in the United States or elsewhere. The survival ability of those Philippine export industries which do not now depend on preferential tariff treatment from the United States may, however, be seriously impaired as a consequence of heavier taxes which the new Philippine Government may find necessary.

Anticipated effects of the Independence Act provisions on United States economy

The provisions of the Independence Act make it practically certain that the Philippines will decrease in importance as a market for United States exports and that it will become less attractive as a field for investments by United States citizens.

Although Philippine tariffs cannot be applied against United States products until after independence, exports from the United States to the Philippines will probably decline as soon as Philippine export taxes come into operation. With a curtailment in exports, the Philippines must perforce restrict its imports. When United States products lose their preferential tariff position in the Philippines in 1946, there is likely to be a further and even more pronounced decline in United States exports

to the Philippines. With a shrinkage in United States-Philippine trade, there will likewise be a lessened demand for services such as those now being rendered by American shipping agencies, banks and insurance companies.

Certain immediate economic gains to the United States Treasury will probably accrue from the abandonment of duty-free trade between the United States and the Philippines. Duties will be collected on various goods - notably sugar - coming from the Philippines, or on similar goods if purchased from alternate foreign suppliers. In any event, the remittance of the proceeds of United States excise taxes on Philippine sugar, coconut oil and cigars, if such taxes then be in effect, will no doubt cease when the Philippines becomes independent. Private American interests, however, will be injured in varying degree with the reduction in United States exports to Philippines.

2. TREND AND CHARACTER OF UNITED STATES-PHILIPPINE TRADE

Trade trend

After the American occupation of the Philippines in 1898, Philippine trade developed rapidly, particularly with the United States. Of the total value of the combined import and export trade of the Philippines, the United States accounted for 11 percent in 1900, 41 percent in 1910, 65 percent in 1920, and 71 percent in 1937.^{1/}

The value of Philippine exports to the United States has generally been much in excess of the value of Philippine imports from the United States. The Philippines had debit trade balances (excesses of imports over exports) with the United States for only a few years following the establishment of free trade in 1909, and for 2 years during the period of the World War. Since then, its credit trade balances (excesses of exports over imports) with United States have increased substantially, the balance for 1937 having been the highest on record.

The status of the balance of trade between the United States and the Philippines has frequently been regarded as an index of the profitability of the trade to the one country or the other. The country having the credit balance has been considered the gainer, and the other country the loser. This inference, however, is not warranted. The usual excess of imports over exports in the trade of the United States with the Philippines has merely been a phase in the triangular (or polyangular) trade in which the United States has paid for this excess of imports largely by exporting goods to other countries in greater value than it has imported.

^{1/} The participation of the United States in the import trade of the Philippines for the years prior to 1910, is not strictly comparable with that for the years following, inasmuch as imports for the account of the United States Government services have in part been included in Philippine imports since July 1, 1910.

from them. These countries, in turn, have exported greater values of goods to the Philippines than they have imported from it. The status of the merchandise balance of trade between the Philippines and the United States, therefore, is of no significance per se in respect of the gains or losses arising to either country. Moreover, the trade balance of the Philippines with the United States not only affects, and is affected by, the trade balances which both countries have with all other countries, but it is influenced also by the extent to which gold shipments, service items, capital movements and other factors enter into the trade of the Philippines and the United States with each other and with all other countries.

During the decade ending with 1937, as shown in table 1, the Philippines shipped to the United States between 75 and 87 percent of its total annual exports, and obtained from the United States between 59 and 65 percent of its total annual imports. During the past several years, the United States has declined in relative importance, but has increased in absolute importance, both as a supplier of Philippine imports and, more especially, as a market for Philippine exports.

Table 1.- Trade of the Philippines with all countries and with continental United States, 1928-37

(General exports and imports, excluding gold and silver ore, bullion, and coin)

(In thousands of dollars)

Year	Philippine exports			Philippine imports			Excess of exports (+), excess of imports (-)	
	To all countries	To conti- nental United States	Ratio of exports to the United States to total exports	From all countries	From con- tinental United States	Ratio of imports from the United States to total imports	Trade with all countries	Trade with continental United States
			Percent			Percent		
1928 -----	155,055	115,586	75	134,657	83,858	62	+20,398	+31,728
1929 -----	164,447	124,465	76	147,160	92,593	63	+17,287	+31,872
1930 -----	133,167	105,342	79	123,093	78,183	64	+10,074	+27,159
1931 -----	103,972	83,422	80	99,179	62,140	63	+4,793	+21,282
1932 -----	95,338	82,648	87	79,395	51,298	65	+15,943	+31,350
1933 -----	105,771	91,313	86	67,361	43,540	65	+31,090	+47,773
1934 -----	110,404	91,844	83	83,607	54,376	65	+26,797	+37,468
1935 -----	94,246	74,936	80	85,524	54,367	64	+8,722	+20,569
1936 -----	136,445	107,525	79	101,126	61,497	61	+35,319	+46,028
1937 (Prel.)	153,278	122,755	80	109,026	63,302	59	+44,252	+59,453

Source: Annual Reports, Insular Collector of Customs. Peso values have been converted into dollar values at the ratio - 1 peso = \$0.50.

The United States market for Philippine products

Philippine exports to the United States in 1937, as shown in table 2, were valued at \$122,755,000. This constituted over 80 percent of the value of the aggregate Philippine exports to all countries. In the preceding year, Philippine exports to the United States amounted to \$107,534,000 or 79 percent of the total to all countries.

Sugar has been for a number of years by far the most important export to the United States. Of the total value of all exports from the Philippines to the United States, sugar accounted for \$57,611,000, or 47 percent, in 1937, and for \$61,927,000, or 58 percent, in 1936. Practically all Philippine exports of sugar products, with the exception of small quantities of molasses, sirup, and alcohol, go to the United States.

The United States provides both absolutely and relatively a somewhat smaller market for Philippine coconut products than for sugar products. Practically all of the coconut oil and desiccated coconut, and about two-thirds of the copra, exported from the Philippines generally go to the United States. The proportion of copra sold in the United States in 1937 was exceptionally high, amounting to 90 percent of the total. About one-half of the total exports of copra cake and meal have been sold in the United States in the last few years, principally because of the shortage of feedstuffs in that market; in earlier years, the bulk of the cake and meal was exported to Europe. Philippine exports of vegetable butter (margarine) and vegetable lard to the United States have also increased in recent years, although the shipments of the latter were less in 1937 than in 1936; and the proportions which these shipments constituted of the total exports of the two products to all countries were less in 1937 than in 1936, being 22 percent for vegetable butter and 27 percent for vegetable lard in the former year.

The Philippines has exported to the United States in recent years a relatively constant share of its total exports of abaca, and a declining share of its total exports of cordage. In 1937, it shipped to that market 32 percent of the value of its abaca exports, and 35 percent of the value of its cordage exports, as compared with 59 percent for the latter in 1934. Practically all exports of Philippine embroideries have always gone to the United States. Exports of tobacco products to the United States in recent years have varied from about one-half to two-thirds of the total value of such exports, the share being 66 percent in 1937.

Other Philippine exports for which the United States provides a relatively large market are canned pineapples, timber and lumber, chrome ore, hats, cutch, pearl buttons, and gums and resins. All, or practically all, of the exports of canned pineapples, cutch, and pearl buttons regularly go to the United States. In 1937, 32 percent of the total value of lumber and timber exported, 82 percent of the hats, and 61 percent of the gums and resins went to the United States. Iron ore, maguey, hides and skins, buntal fiber, and molasses and sirup are the only Philippine exports of any considerable importance for which the entire, or practically the entire, foreign market is outside the United States.

The above mentioned products accounted, in 1937, for 96 percent of the total value of Philippine exports to all countries, and for 99 percent of the total value of the exports to the United States, the remaining exports consisting of a wide variety of miscellaneous products. The corresponding figures for 1936, are, respectively, 95 percent and 96 percent.

Table 2 shows the principal exports from the Philippines to all countries and to the United States in 1936 and 1937.

Table 2.- Values of principal Philippine exports to the world, and values and proportions of totals exported to the United States, 1936 and 1937 (Preliminary) ^{1/}

(In thousands of dollars)

Commodity	1936			1937		
	Total	To the United States	Ratio of exports to the U.S. to total exports	Total	To the United States	Ratio of exports to the U.S. to total exports
			Percent			Percent
Sugar -----	61,937:	61,927:	100	57,706:	57,611:	100
Abaca -----	17,089:	5,337:	31	21,640:	6,851:	32
Coconut oil -----	13,789:	13,137:	95	20,526:	20,174:	98
Copra -----	15,000:	9,772:	65	15,985:	14,425:	90
Desiccated coconut --	4,397:	4,353:	99	6,347:	6,304:	99
Tobacco and products:	5,245:	2,562:	49	4,983:	3,290:	66
Timber and lumber --	3,100:	1,190:	38	3,943:	1,263:	32
Embroideries -----	4,192:	4,184:	100	3,700:	3,681:	99
Copra cake and meal--	1,830:	1,034:	57	2,900:	1,419:	49
Canned pineapples---	502:	501:	100	1,673:	1,673:	100
Cordage -----	1,199:	450:	38	1,436:	496:	35
Iron ore -----	1,432:	-:	-	1,326:	8:	1
Maguey -----	1,058:	148:	14	1,087:	39:	4
Chrome ore -----	154:	118:	77	771:	703:	91
Vegetable butter ---	336:	103:	31	513:	113:	22
(margarine)	:	:		:	:	
Hats -----	588:	480:	82	467:	383:	82
Gums and resins ----	337:	230:	68	375:	231:	61
Cutch -----	323:	323:	100	348:	348:	100
Hides and skins ----	145:	3:	2	319:	9:	3
Buntal fiber -----	341:	-:	-	301:	-:	-
Molasses and sirup --	252:	110:	43	276:	43:	16
Pearl buttons -----	219:	219:	100	275:	274:	100
Vegetable lard -----	450:	340:	76	248:	66:	27
All other -----	6,271:	4,828:	77	6,133:	1,340:	22
Total -----	136,445:	107,525:	79	153,278:	122,755:	80
	:	:		:	:	

^{1/} The exports are exclusive of gold bullion and ore.

Source: Annual Reports, Insular Collector of Customs.

The United States purchased from the Philippines in 1936 goods valued at \$101,715,365, or 4.2 percent of the United States total imports.^{1/} In that year, the Philippines ranked seventh in importance among United States suppliers. Of the United States total imports of the following specified commodities from all countries in 1936, the Philippines supplied, on the basis of value, 99 percent of the major coconut products, 80 percent of the tobacco manufactures, 38 percent of the sugar, 87 percent of the sawed cabinet woods (partly dressed and other than mahogany), and 98 percent of the embroidered cotton wearing apparel.

The Philippine market for United States products

Imports into the Philippines from the United States in 1937, as shown in table 3, amounted to \$63,302,000 or 53 percent of the total value of imports from all countries. The principal import from the United States consisted of iron and steel products, valued at \$14,071,000, or 22 percent of the total value of all imports from the United States. These imports also represented about 73 percent of Philippine imports of such products from all countries. The second largest import from the United States consisted of cotton goods, amounting to \$7,658,000 and constituting 44 percent of the value of all imports of cotton goods. Mineral oil ranked third in importance, and the United States supplied 75 percent of the total imported from all countries; automobiles and parts (exclusive of rubber tires) ranked fourth, with the United States

^{1/} Preliminary 1936 general imports, Foreign Commerce and Navigation of the United States. This figure does not correspond with that given above for Philippine exports to the United States, inasmuch as this latter was obtained from Philippine statistics. United States import data for 1937 are not yet available.

supplying 99 percent of the total imported from all countries. Tobacco products were next, the imports from the United States accounting for 99 percent of the total from all countries. Electrical machinery, rubber and manufactures, unprinted paper, chemicals and drugs, and wheat flour ranked next in importance among imports from the United States. Other important Philippine imports of which the United States was a major supplier in 1937 were leather and manufactures, silk and rayon and manufactures thereof, dairy products, fruits, and nuts, vegetables, fertilizers, meat products, fish products, and glass and glassware. Vegetable fibers (other than cotton) and manufactures thereof constituted the only important import of which the United States was not a major supplier.

The above-mentioned articles accounted in 1937 for 79 percent of the total value of Philippine imports from all countries and for 82 percent of the total value of the imports from the United States. The corresponding figures for 1936 are, respectively, 79 percent and 83 percent. Table 3 shows the principal imports into the Philippines from all countries and from the United States in 1936 and 1937.

Table 3. - Values of principal Philippine imports from all countries, and values and proportions of totals imported from the United States, 1936 and 1937 (Preliminary)

(In thousands of dollars)							
Commodity	1936			1937			
	Total	From the United States	Ratio of	Total	From the United States	Ratio of	
			imports			imports	
			from the			from the	
			U.S. to			U.S. to	
total	total	Percent	total	total	Percent		
Iron and steel manufactures --	16,016	12,291	77	19,340	14,071	73	
Cotton goods -----	15,268	6,782	44	17,454	7,658	44	
Mineral oil -----	7,163	6,093	85	6,502	4,859	75	
Automobiles and parts (exclu- sive of rubber tires) -----	4,272	4,255	100	4,610	4,566	99	
Wheat flour -----	3,950	1,547	39	4,102	1,574	38	
Dairy products -----	4,069	1,222	30	3,719	959	26	
Tobacco products -----	3,565	3,516	99	3,670	3,626	99	
Electrical machinery, appara- tus and appliances -----	2,915	2,520	86	3,427	2,908	85	
Silk, rayon and manufactures --	2,882	842	29	3,098	1,124	36	
Paper, unprinted -----	2,266	1,475	65	2,870	1,891	66	
Chemicals, drugs, dyes and medicines -----	2,788	1,854	66	2,851	1,877	66	
India rubber and manufactures	2,235	1,996	89	2,271	1,957	86	
Vegetable fibers and manufac- tures (other than cotton) ---	1,941	52	3	2,072	62	3	
Fish and fish products -----	1,529	784	51	1,780	536	30	
Fertilizers -----	2,136	1,304	61	1,752	703	40	
Vegetables -----	1,691	834	49	1,751	742	42	
Leather and manufactures -----	1,259	1,173	93	1,493	1,359	91	
Meat products -----	1,443	892	62	1,321	631	48	
Fruits and nuts -----	1,417	1,074	76	1,196	762	64	
Glass and glassware -----	753	319	42	1,025	314	31	
All other -----	21,567	10,673	49	22,719	11,124	49	
Total -----	101,126	61,497	61	109,026	63,302	58	

Source: Annual Reports, Insular Collector of Customs.

The Philippines ranked ninth among the principal export markets for United States products in 1936, exports to the Philippines in that year having been valued at \$60,243,754 or 2.5 percent of the total exported to all countries. On the basis of the United States Foreign Commerce and Navigation's group classifications of commodities, the Philippines ranked as follows among the world customers of the United States in 1936:^{1/} It occupied fifth place as a buyer of animal and vegetable products, except fibers and wood (groups 00, 0, 1, and 2 combined), of which it purchased \$14,869,799 for the year. These goods are composed largely of manufactured or processed farm products. As a buyer of all types of textiles (group 3), of which it purchased \$7,950,872, it ranked tenth. It was the fourteenth most important buyer of wood and paper products (group 4), of which it purchased \$1,754,685; the fourteenth, of nonmetallic minerals (group 5), \$6,155,527; the ninth, of metals and manufactures, except machinery and vehicles (group 6), \$7,761,678; the fourteenth, of machinery and vehicles (group 7), \$11,928,165; the fourth, of chemicals and related products (group 8), \$5,741,371; and fourth, of miscellaneous products (group 9), \$4,081,657.

In 1936, the Philippines ranked first or second among the export markets of the United States for the following articles or groups of articles, exports of which to the Philippines were valued at \$100,000 or more for the year.^{2/}

^{1/} Source: Foreign Commerce and Navigation of the United States, 1936.

^{2/} The Philippines also ranked first or second among the export markets of the United States for a large number of other products, the value of which ranged between \$50,000 and \$100,000 in 1936; these products were: Boots and shoes, cut outer soles; pickles; ketchup and other tomato sauces; chocolate; roasted coffee; confectionary other than chocolate; paper boxes and cartons; sanitary closet bowls; plaster of paris manufactures; iron or steel sashes and frames; cast iron screwed pipe fittings; cast iron soil pipe and fittings; woven wire fencing; woven wire screen cloth; steel castings; enamelware of iron or steel; sheet metal filing cases, shovels, spades, scoops, and drainage tools; padlocks; electric sockets, outlets, etc.; centrifugal pumps; woodworking sawmill machinery; marine engines, diesel and semi-diesel; cold and cough preparations; calcium carbide; pianos, pencils, other than mechanical; shot shells; and toothbrushes.

Table 4. - United States exports to Philippines of selected domestic commodities for which the Philippines ranked first or second among United States exports markets, 1936

Commodity	Value	Rank of the Philip- pines 1/
Cotton manufactures, total -----	\$6,481,731	2
Cigarettes -----	3,651,557	1
Rubber and manufactures -----	2,057,729	2
Steel sheets, galvanized -----	1,896,706	1
Wheat flour, wholly of United States wheat -----	1,573,210	1
Dairy products -----	1,164,713	1
Nitrogenous fertilizer materials -----	1,112,093	2
Explosives, fuses and blasting caps -----	946,333	1
Sewing machines for domestic use -----	927,183	1
Toilet preparations -----	673,856	1
Educational text books, bound -----	489,145	1
Soaps -----	476,981	1
Canned sardines -----	410,376	1
Ready mixed paints, stains and enamels -----	384,366	1
Cornstarch and corn flour -----	291,789	2
Chewing tobacco, plug and other -----	287,564	1
Cigar leaf -----	264,288	1
Coffee, green -----	255,929	2
Malt liquors (beer, ale, stout, etc.) -----	236,556	1
Steel bars other than iron bars, and concrete re- inforcement bars -----	225,279	1
Internal combustion engines, diesel and semi- diesel -----	200,610	1
Beef and veal, fresh or frozen -----	198,818	2
Wire rope and wire strand -----	188,739	2
Upper leather (except patent), cattle side, grain, other than black -----	176,405	2
Sugar mill machinery other than cane mills -----	169,911	2
Glucose (corn sirup) -----	142,274	2
Confectionary, chocolate -----	133,018	1
Welded galvanized pipe, steel -----	125,869	1
Canned pork -----	122,670	2
Cocoa, powdered -----	121,086	1
Canned sausage -----	120,168	1
Household refrigerators, except electric -----	118,239	2
Salves and ointments for coughs, colds, etc. ---	112,524	2

1/ Based on value.

Source: Foreign Commerce and Navigation of the United States.

Economic aspects of duty-free trade

The existing structure of the economy in the Philippines is in considerable degree the result of the free-trade relations which have existed between the two areas for the past quarter of a century. This relationship has created opportunities for the Philippines to sell in the United States, free of duty, much larger quantities of such products as sugar, coconut oil, tobacco products, cordage, embroideries, and pearl buttons than it would have been able to sell in the absence of preferential trade relations.^{1/} In consequence, the tendency has been for the Philippines to develop those industries which produce commodities for sale in the United States market at prices which in most instances have been kept above world levels by the United States tariff and more recently, in the case of sugar, by quota restrictions. The resulting increase in the production of export commodities thus protected in the United States market has operated to discourage the production both of export commodities not so protected and of commodities intended for Philippine consumption. On the other hand, the increased sale of goods in the preferential United States market has enabled the Philippines to buy more goods from the United States and from other countries than it would otherwise have been able to buy.

It should not be inferred, however, that the existing economy of the Philippines rests wholly on preferential trade relations with the United States. For example, much the larger part of the land under cultivation in the Philippines is devoted to crops, such as rice, corn,

^{1/} All of these products are subject to United States duties when imported into the United States from foreign countries.

and sweet potatoes, which are consumed within the archipelago, or to export products, such as copra, abaca, leaf tobacco, timber, which are sold, either in the United States or elsewhere, on the basis of world prices.^{1/}

In contrast to the Philippines, the preferential free-trade arrangement has not modified to any appreciable extent the economy of the United States. The discontinuance of this trade arrangement, therefore, may not be expected substantially to affect that economy. This is due largely to the difference in the magnitude of the markets of the two countries. As a result of the preferential free-trade arrangement, however, exporters of certain United States products have obtained increased markets in the Philippines, not only in consequence of the protection afforded United States products by Philippine duties against imports from other countries but also in consequence of the increased volume of Philippine exports to the United States resulting from the similar protection accorded Philippine products in the United States market. The increased trade in both directions has also benefited United States shipping interests, and it has given rise to profitable American investments in the Philippines, although the aggregate of these latter is not large in comparison with the total of American investments abroad.

There are no satisfactory indexes for measuring the economic gains and losses which have accrued to the Philippines and to the United States, respectively, by virtue of their trade relations with each other. The

^{1/} All of the above mentioned export products except leaf tobacco are on United States free list, i.e., they may be imported into the United States free of duty from any country.

annual amounts of duty each country nominally waives by permitting the other to send in goods duty-free are sometimes used for this purpose; but the theoretically waived duties neither reflect accurately the additional revenue which the respective governments could actually collect on the basis of present tariffs, nor indicate in what measure such additional revenue would be collected at the expense of the domestic consumers of the imported goods. The tariff revenues which each country nominally forfeits, moreover, may not be regarded as measuring the benefits accruing to the export interests of the other country. It seems clear, however, that the duties which the United States waives on imports from the Philippines represent both fiscal losses for the United States and price gains for Philippine producers to a considerably greater degree than is correspondingly the case in respect of the duties which the Philippines waive on imports from the United States. This is due largely to the importance of sugar among the exports from the Philippines to the United States. (See section on sugar.)

Although the tariff revenue which the United States Treasury foregoes on imports of Philippine products is in some degree offset by corresponding waivers on the part of the Philippine Treasury, the excise tax revenue which the United States Treasury foregoes, because of the remittances to the Philippines of the proceeds of excise taxes on Philippine sugar, coconut oil and cigars, is not offset in any degree by corresponding waivers on the part of the Philippine Treasury. The Philippine Commonwealth imposes excise taxes on a number of United States products, such as cigarettes, liquors, and kerosene, but it retains the proceeds of all such taxes for its own use.

3. PURPOSE AND CHARACTER OF RECOMMENDATIONS^{1/}

The Independence Act provides for the termination of Philippine trade preferences in the United States at the end of the Commonwealth period, which period began November 15, 1935 and will extend to July 4, 1946. In accordance with that law, Philippine products shipped to the United States from November 15, 1940, to July 4, 1946, will be subject to progressive Philippine export taxes reaching a maximum of 25 percent of the then existing United States duties in 1944; thereafter, it will no longer be required that these products be subjected to export taxes but they will become subject to full United States duties. This abrupt change in trade relations will be certain to affect adversely a number of Philippine export industries, as well as others directly dependent upon them. Many firms will be forced to liquidate on or before the date of independence; and the consequent decline in the volume of business, coupled with increased unemployment, would have serious repercussions on the Philippine economy. American export trade would also be impaired by the sudden imposition of Philippine duties upon United States products.

With a view to affording both American and Philippine interests a reasonable opportunity to adjust themselves to the changed relationship, the Committee recommends that trade preferences should not be terminated on July 4, 1946, but should, by a process of gradual elimination, be

^{1/} See Part VII for detailed recommendations.

terminated at the end of the year 1960.^{1/} The Committee believes that the period recommended would afford a reasonable opportunity not only for the orderly liquidation of existing Philippine industries but also for the establishment of new industries which could provide additional products for domestic consumption or for export. The gradual elimination of preferences would also benefit American interests engaged in United States-Philippine trade.

In conformity with the general plan adopted by Congress in the Independence Act, the Committee recommends that commerce between the United States and the Philippines be continued on a duty-free basis during the Commonwealth period but that Philippine products shipped to the United States (with certain exceptions) be subject to graduated export taxes imposed by the Commonwealth Government. The export taxes proposed by the Committee are to begin with the equivalent of 5 percent of the prevailing United States duties and are to be increased annually by an additional 5 percent, as required by the Independence Act. The Committee recommends that this tax first be assessed on January 1, 1941, and that the annual increases be imposed on each subsequent January 1, until January 1, 1945, when the export tax would be equal to 25 percent of

^{1/} In reaching these conclusions, the Committee has been guided by: (1) Its terms of reference requiring it, "to recommend a program for the adjustment of Philippine national economy in preparation for the termination of preferential trade relations between the United States and the Philippines ... at the earliest practicable date consistent with affording the Philippines reasonable opportunity to adjust their national economy;" and (2) a joint declaration of the executive branches of the governments of the United States and the Commonwealth of the Philippines indicating that they envisaged a period of adjustment in trade relations extending for some 15 years beyond the date of political independence fixed by the Independence Act.

prevailing United States duties.^{1/} The proceeds of these taxes are to be deposited in the Treasury of the United States for the retirement of the Philippine bonded debt. The export taxes, therefore, have a two-fold purpose: (1) To assist in bringing about the necessary adjustment of Philippine economy; and (2) to provide additional revenue for the retirement of the debt of the Philippine Government.

The Committee recommends that, after the Philippines becomes independent on July 4, 1946, graduated import duties be assessed against United States products entering the Philippines and against Philippine products entering the United States. Commencing with 25 percent of prevailing rates, these duties would be raised to 30 percent on January 1, 1947, and would be increased by an additional 5 percent on each January 1 thereafter, until January 1, 1961, when full duties would be assessed. This program adopts the same rate of progression as provided in the Independence Act, but continues it for a longer period. During this period there would be accorded to American and Philippine interests an additional opportunity to make whatever adjustments may be required by the change in trade relations between the United States and the Philippines to a position independent of preferences.

^{1/} The effective date for the first imposition of export taxes, as recommended by the Committee (January 1, 1941), is not the same as that fixed in the Independence Act, which provides that, "During the sixth year after the inauguration of the new government the export tax shall be 5 per centum of the rates of duty which are required by the laws of the United States to be levied, collected, and paid on like articles imported from foreign countries." Under the act, therefore, export taxes will first be imposed on November 15, 1940. The Committee believes that the administration of the graduated export taxes and the compilation of comparable statistics on Philippine exports to the United States would be simplified by making the graduated export taxes commence with the calendar year. The recommendations of the Committee further provide that, on July 4, 1946, the graduated import duties begin with 25 percent of United States duties (inasmuch as that percentage is the same as the maximum export tax established by the Independence Act) and that these graduated import duties be increased by an additional 5 percent on each subsequent January 1, until January 1, 1961, when full duties would be collected.

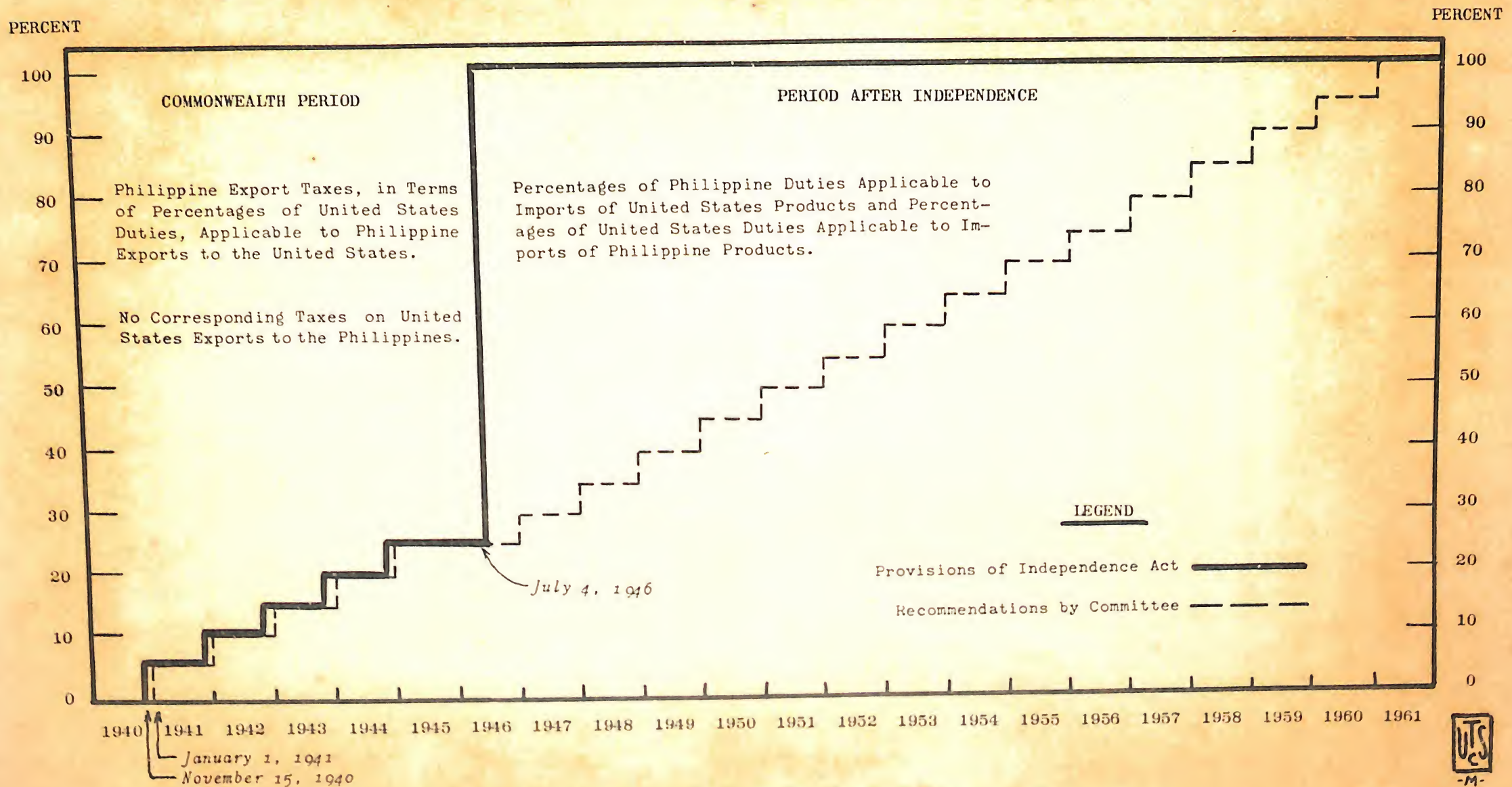
The graduated Philippine export taxes and the graduated United States and Philippine import duties will not affect in the same degree all industries, the products of which enter into United States-Philippine trade. Several commodities are permitted duty-free entry from all countries under the tariff acts of both the United States and the Philippines, and therefore will not be directly affected by the changed relationship. Moreover, many industries producing dutiable products will doubtless be able to continue exportations despite the imposition of export taxes and graduated import duties. In the opinion of the Committee, however, certain Philippine industries will be forced to curtail drastically or to discontinue shipments to the United States upon the imposition of export taxes, and certain United States industries will likewise be forced to discontinue shipments to the Philippines upon the imposition of graduated Philippine import duties. This situation will arise principally because of the extreme height of the duties applicable to certain products which now are shipped only because of the free entry privilege accorded to them.

The Committee does not believe that Congress intended, when it adopted the export tax formula, to force the abrupt liquidation of certain Philippine industries; and the Committee does not believe that the exportation to the Philippines of certain United States commodities should be terminated abruptly on July 4, 1946 with the imposition of Philippine duties. In those instances, therefore, in which the application of taxes or duties appears likely to force a sharp recession in trade, the Committee recommends a different type of restriction, namely,

declining quotas which would be graduated so as to provide for their complete elimination by January 1, 1961. Shipments within the quota limitations would be exempt from export taxes and import duties. This type of restriction would provide for the gradual elimination of preferential trade and yet would permit either an orderly liquidation of these particular export industries or an orderly adjustment to their new status. Commodities which the Committee recommends be made subject to declining quotas are cigars, scrap and filler tobacco, cigarettes, coconut oil, and pearl buttons. In selecting these commodities for special treatment, the Committee has been guided by its study of the probable effect of the imposition of export taxes and import duties upon each of the various commodities entering into United States-Philippine trade, and by a recognition of the importance of the trade in the selected commodities both to the United States and to the Philippines. Although the Committee recommends no other exceptions to the general imposition of export taxes and import duties, it makes recommendations regarding tariff rates or excise tax rates for abaca, copra, embroideries, cotton textiles, evaporated milk, and canned fish.

A detailed analysis of the special problems affecting the trade between the two countries in the more important commodities is presented on subsequent pages.

CHART I - PHILIPPINE EXPORT TAXES AND UNITED STATES IMPORT DUTIES AS PROVIDED IN THE PHILIPPINE INDEPENDENCE ACT, WITH CHANGES AND ADDITIONS RECOMMENDED BY THE JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS ^{1/}



^{1/} The Committee assumes, although no existing legislation so provides, that United States products would become subject to Philippine duties after Independence if Philippine products should then become subject to United States duties.

4. PHILIPPINE EXPORTS TO THE UNITED STATES

SUGAR

The Sugar Industry in Philippine Economy

The culture of sugar cane was known in the Philippines long before Magellan discovered the Islands in 1521. Improved methods of cultivating and milling, however, were slow in developing; it was not until 1910 that the first modern sugar central was established on the island of Mindoro. During the period 1920-34, the production of sugar increased steadily, rising from 465,000 to 1,650,000 short tons, raw value. This increase was the result of the profitability of producing sugar in the Philippines for the United States market, coupled with the encouragement given to the industry by American Governors General and other American and Philippine officials. The area devoted to sugar cane culture was increased also, but the rise in production occurred principally because of the use of better varieties of cane, improved methods of cultivation, and the general installation of modern centrifugal mills. In recent years, the production of sugar in the Philippines has been appreciably below that of 1934 because of quota restrictions placed upon exports to the United States.

The two principal elements in the Philippine sugar industry are the individual planters who produce the cane and the centrals which mill it. The individual planters operate under a milling contract with the central. Contracts are usually drawn for a period of 30 years and usually provide for an equal division of the sugar between planters and central, or a

55-45 or a 60-40 division, with the larger shares going to the planter. Under the contract the planters are obligated to have their cane milled by the contracting central, and the central is obligated to furnish transportation for the cane and to convert it into sugar. The share of the planter is frequently further divided between tenant and land owner, the latter receiving from 10 to 20 percent of the total crop as rent.

The Philippine sugar industry is located in three principal producing regions: (1) The islands of Negros and Panay, (2) the Provinces of Pampanga, Bataan, and Tarlac, in the central plain of Luzon, north of Manila; and (3) the Provinces of Batangas and Laguna, south of Manila. These districts regularly produce over 90 percent of the total sugar crop. The Province of Occidental Negros alone accounts for approximately 50 percent of the total production.

On the basis of information supplied by the Philippine Sugar Association, it would appear that approximately 10 percent of the total Philippine population is entirely or substantially dependent upon the sugar industry. The government-owned Manila Railroad, which traverses the sugar regions in Luzon, receives about 40 percent of its freight revenue from sugar, and the Philippine Railway in Panay and Cebu, about 45 percent. The provincial governments in five of the leading provinces are supported principally by the taxes collected from the sugar industry, which also makes substantial contributions in the form of taxes to the central government.

The island of Negros probably depends more on the production of sugar than does any other corresponding area in the Philippines. The sugar industry is the only important industry on the island, except lumbering, which is

confined principally to a small district. Sugar producers on the island of Negros have lower costs of production than those in other regions, principally because of favorable soil and climatic conditions. They also enjoy comparatively low transportation costs through their ability to ship directly by water, avoiding the rail, lighterage, and terminal storage charges which are paid by producers in Luzon.

In 1937, there were nearly 20,000 sugar planters in the Philippines; sugar centrals numbered 46 and had an annual milling capacity of about 12,000,000 tons of cane or 1,500,000 tons of sugar, based on a normal grinding season of 150 days. In addition to the centrals which produce raw sugar, four sugar refineries are in operation in the Philippines. Three of these are located on the island of Luzon and one on the island of Negros. These refineries, however, absorb only a small part of the Philippine production of raw sugar. They manufacture primarily for export to the United States, but supply a part of local sugar consumption.

Investments in sugar centrals were valued in 1935 at \$84,000,000 and investments in land and improvements, \$181,000,000.^{1/} Of the total capital invested in centrals, approximately 45 percent was owned by Filipinos, 30 percent by Americans, and 25 percent by Spaniards. Most of the investments in cane lands and in improvements have been made by Filipinos; the remainder has been provided principally by Americans and Spaniards.

It has been estimated that the sugar planters and centrals provide full or part time employment for over 300,000 persons whose aggregate annual wages amount to \$12,000,000.^{2/} Employees in many centrals are

^{1/} Philippine Statistical Review, p. 310, vol. 2, 1935. Estimates by the Philippine Sugar Assn. place the investments in centrals at \$93,250,000 and investments in land and improvements at \$105,000,000.

^{2/} Estimates made by the Philippine Sugar Association.

provided with houses, water, fuel, garden space, and, in many cases, light, as part of their remuneration. Plantation laborers also are usually provided with housing facilities in addition to money wages. Efforts have recently been made to establish throughout the industry an 8-hour day with a minimum wage of 50 cents (1 peso). Inasmuch as sugar culture is seasonal in character, many of the laborers are employed only during the planting and harvesting periods.

Since 1923, the value of Philippine exports of sugar has been greater than that of the exports of any other Philippine product. In 1932 exports of sugar exceeded 1,000,000 short tons for the first time in Philippine history. Exports rose in 1934 to a peak of 1,275,000 short tons valued at \$65,450,000. In the 3 years, 1932, 1933, 1934, sugar accounted for 63, 61, and 59 percent, respectively, of total Philippine exports. Philippine shipments in 1934 exceeded United States marketing quotas (the excess being stored in bonded warehouses during that year); and consequently, Philippine exports declined in 1935 to 573,500 short tons, valued at \$32,990,000, and equaled only 35 percent of total exports. In 1936 and 1937, Philippine exports were larger than those in 1935, inasmuch as quotas governing imports of Philippine sugar into the United States for the 2 former years were not curtailed by previous excess shipments; in 1937, exports amounted to about 260,000 short tons valued at \$57,700,000 and accounted for 38 percent of total Philippine exports.

Practically all of the sugar exported from the Philippines in recent years has been destined for the United States market. The proportion has been over 99 percent since 1930 (see table 5).

Table 5. - Sugar: Quantities and values exported from the Philippines to all countries and to the United States, 1928-37

Year	Total exports		Ratio of total value of exports of sugar to total value of all Philippine exports	Exports to the United States		Ratio of quantity of exports of sugar to the United States to total quantity of such exports to all countries
	Quantity	Value		Quantity	Value	
	Short tons raw value			Short tons raw value		
1928	628,863	\$47,542,940	30.7	589,565	\$45,699,006	93.75
1929	767,596	53,244,149	32.4	740,206	52,161,316	96.43
1930	822,201	52,240,226	39.2	814,736	52,039,890	99.09
1931	833,080	49,963,105	48.1	832,430	49,950,417	99.92
1932	1,124,971	59,801,884	62.7	1,124,691	59,796,369	99.98
1933	1,193,260	64,333,426	60.8	1,193,244	64,332,902	99.99
1934	1,275,313	65,454,580	59.3	1,275,250	65,453,621	99.99
1935	573,510	32,990,680	35.0	572,724	32,961,593	99.86
1936	991,892	61,937,322	41.9	991,646	61,927,184	99.97
1937	960,153	57,706,194	37.7	956,805	57,610,521	99.65

Sources: Annual Reports, Insular Collector of Customs

Restrictions upon the Movement of Philippine Sugar to
the United States

Recent United States legislation affecting sugar

The Tariff Act of 1922 fixed the rate on full-duty 96° sugar entering the United States at 2.206 cents per pound; this rate was increased by the Tariff Act of 1930 to 2.5 cents per pound. On May 9, 1934, the President issued a proclamation lowering the duty on sugar to 1.875 cents per pound, effective June 8, 1934. In each of the above instances, the rate on Cuban sugar was 20 percent lower than the full duty because of the convention of commercial reciprocity signed by Cuba and the United States in 1902.^{1/} By the terms of the trade agreement between the United States and Cuba, proclaimed August 24, 1934, the United States granted a reduction in duty on Cuban raw sugar (96°) from 1.5 cents to 0.9 cent per pound, effective September 3, 1934. The agreement provides, however, that the reduced duty is to remain in effect only as long as the quota provisions of the Jones-Costigan Act or their equivalent are operative. Upon the declaration by the Secretary of Agriculture that these provisions have lapsed, the duty on Cuban sugar will revert to a rate which will be 20 percent less than the full duty in effect at the time. On the basis of the present duty on sugar, this rate would be 1.5 cents per pound.

The Jones-Costigan Act, signed by the President on May 9, 1934, made possible the application of quota limitations on the marketing of all sugar in continental United States. The act continued in operation for 3 years from the date of approval. The quota system was extended for

^{1/} The rate on 96° Cuban sugar was 1.7648 cents per pound under the Tariff Act of 1922, 2 cents per pound under Tariff Act of 1930, and 1.5 cents per pound after the Presidential proclamation effective June 8, 1934. This last named rate remained in force until Sept. 3, 1934, when the Cuban trade agreement became effective.

the calendar year 1937 by a law approved June 19, 1936, and for 3 additional years, 1938-40, by the Sugar Act approved September 1, 1937. The Sugar Act of 1937 provides for a percentage distribution of United States consumption requirements, as estimated by the Secretary of Agriculture, among domestic and other producing areas. Domestic sugar-producing areas are allotted 55.59 percent of estimated United States consumption, but not less than 3,715,000 short tons; the Philippines and foreign countries are allotted 44.41 percent, provided estimated consumption is not less than 6,682,670 short tons. The Philippine quota is fixed at 34.70 percent of the share reserved for other than domestic areas, but may not be less than the duty-free quota established by the Independence Act. The Sugar Act also provides for a tax of 0.5 cent per pound, raw value, on the processing of sugar. A further provision of the act stipulates that the proceeds of this tax collected on Philippine sugar sold in the United States shall be remitted to the Commonwealth Government, subject to certain restrictions as to their use.

On December 4, 1934, the Governor-General of the Philippines approved a sugar limitation bill which was designed to bring Philippine production into correspondence with the United States quota. The Governor-General was empowered to determine and to allocate production quotas based on the amount of shipments to the United States, plus allowances for Philippine consumption and for an emergency reserve. After the inauguration of the Commonwealth Government, a change occurred in the local sugar administration. On January 21, 1936, a Philippine sugar administration was created by the Commonwealth Government to enforce the Sugar Limitation Act. This body administers the allocation of domestic quotas and of quotas governing shipments to the United States.

United States quotas allotted to Philippine sugar producers under the various sugar acts are listed below:

<u>Year</u>	<u>Original quota</u>	<u>Final quota</u>
		<u>Short tons, raw value</u>
1934	1,015,186	1,005,602
1935	991,308	981,958
1936	998,110	1,000,829
1937	1,035,742	991,020
1938	1,057,416	<u>1/</u>

In 1934, the Philippine crop, the largest ever produced in the archipelago, had already been cut and milled when quotas were announced. The resulting overshipments in that year were charged against the 1935 quota so that actual exports to the United States in 1935 amounted to only 569,000 tons. Philippine planters, however, received benefit payments for their crop reductions (as did planters in the United States). These payments, aggregating approximately \$15,000,000, partially reimbursed them for the cost of planting cane which was later destroyed, and for the sharp restriction in production.

Since the inauguration of the Commonwealth Government on November 15, 1935, the amount of Philippine sugar permitted to enter the United States duty-free has been limited by the Independence Act to the equivalent of approximately 970,000 short tons of sugar, raw value. Imports in excess of the quota provided in the Independence Act are subject to the full United States duty. No such imports, however, have been made.

Restrictions imposed by the Independence Act

The economic provisions of the Independence Act have placed certain restrictions on the shipment of Philippine sugar to the United States. These restrictions may be considered with respect to three periods:

1/ No adjustment has yet been made in sugar quotas for 1938 (May 1, 1938).

(1) During the first 5 years of the Commonwealth Government, the annual quantity of sugar which may be admitted into the United States free of duty is limited to 50,000 long tons of refined sugar, and 800,000 tons of unrefined sugar. These two amounts correspond to a total of approximately 970,000 short tons of raw value. Any Philippine sugar which might enter the United States in excess of the quota limitation fixed by the Independence Act would be subject to the full United States duty.

(2) From the sixth through the tenth year of the Commonwealth Government, the quota provided in the act will remain the same, but progressive export taxes will be assessed against such quota sugar exported to the United States. These taxes will amount to 5 percent of the prevailing United States duty during the sixth year of the Commonwealth period, and will be increased by an additional 5 percent each succeeding year until, in the tenth or last year, they will amount to 25 percent of the United States duty. Based on the present duty of 1.875 cents per pound, raw value, these export taxes will equal 0.09375 cent per pound in the sixth year of the Commonwealth, and 0.46875 cent per pound in the tenth year.

(3) After the Philippines attains its independence on July 4, 1946, the export taxes and the quota limitation provided for by the Independence Act will cease to be applicable. After that time all Philippine sugar arriving in the United States will be subject to the full United States duty.

Dutiable and Duty-Free Sugar in the United States Market

For over 30 years prior to the inauguration of the quota system in 1934, sugar prices in the United States approximated world prices plus the preferential United States duty on Cuban sugar. Producers of duty-free sugar received the full United States price whether they were located in continental United States or in insular areas. In the case of sugar imported from Cuba, nearly all of the differential between the United States and the world price of sugar went to the United States Treasury; but, in the case of sugar produced in the United States and its insular areas, it went to the private producers.

Since the establishment of the quota system, the price of sugar in the United States has ceased to be linked directly to the world price. ^{1/} Instead, it has been the resultant of current domestic demand and the volume of permitted sales fixed in accordance with the provisions of the Sugar Act. Up to the present time this price has exceeded the world price, not only by much more than the United States duty on Cuban sugar, but also by more than the full duty. The average differential between the United States and world prices in 1937 was as follows:

<u>Raw sugar - 96°</u>	<u>Average price, 1937 ^{2/}</u> (Cents per pound)
United States price at New York	3.443
World price at New York	<u>1.319</u>
Differential between United States and world prices	2.124

^{1/} The price in the United States, however, could not long remain below the world price plus the United States duty on Cuban sugar, for, if such a decline should occur, the supply in the United States would be curtailed by the refusal of Cuban producers to sell in that market.

^{2/} In 1936, the spread between the average United States price at New York and the average world price at New York was 2.579 cents per pound; in the first quarter of 1938 the spread was 1.954 cents per pound.

Under the terms of the Independence Act, the Philippines, during the Commonwealth period, are permitted to sell the approximate equivalent of 970,000 short tons of 96° sugar duty-free in the United States market.^{1/} Because of this privilege Philippine producers received about \$41,000,000 in 1937 (on the basis of average prices in that year) more than they would have obtained if they had sold an equivalent amount of sugar at the world price; only part of this amount, however, represented net profits to Philippines producers. This sum may also be regarded as the premium which the United States paid in 1937 for Philippine sugar on the present duty-free quota basis, as compared with what the cost to the United States would have been if it had purchased an equivalent amount of sugar at world prices.^{2/}

On the basis of existing United States duties, the annual loss in revenue to the United States Treasury resulting from the duty-free admission of Philippine sugar may be calculated to range from \$36,375,000 to \$17,460,000. If the United States should purchase sugar from any foreign supplier other than Cuba, the United States Treasury would collect a duty of 1.875 cents per pound. Based on the Philippine duty-free quota of approximately 970,000 tons, the revenue foregone by the United States Treasury amounts to \$36,375,000. If the same amount of sugar were purchased

^{1/} The export taxes during the second 5 years of the Commonwealth period are to be collected and retained by the Commonwealth Government.

^{2/} The duty-free quota of 970,000 short tons is equivalent to 1,940,000,000 pounds which, when multiplied by 2.124 cents per pound, equals \$41,205,600. It is doubtful, however, whether the Philippines would have produced the quantity of sugar exported in 1937 if it had not been accorded duty-free entry into the United States. It may also be observed that consumers in the United States pay similar premiums in purchasing sugar from domestic suppliers and, to a lesser degree, in purchasing it from Cuba.

from Cuba, the duty would be 0.9 cent per pound or \$17,460,000. In neither of the above cases would the increase in Treasury revenue operate to influence the price of sugar in the American market.

In addition to the tariff revenue which it foregoes, the United States Treasury will forego all the revenue it collects on the processing of Philippine sugar marketed in the United States after September 1, 1937, inasmuch as the proceeds of this tax, amounting to 0.5 cent per pound on 96° sugar are by law to be remitted to the Philippine Government. Based on the Philippine duty-free quota of approximately 970,000 short tons, these remittances will amount to \$9,700,000 annually.

Philippine Sugar in the United States Market during and after the Commonwealth Period

During the Commonwealth period, Philippine producers will no doubt be able to sell in the United States market the quantity of preference sugar fixed by the Independence Act. Assuming that the existing level of sugar prices in the United States is maintained with minimum fluctuations, and that control will also be exercised over the quantity of sugar coming from off-shore areas, Philippine sugar producers will continue to benefit from the tariff preferences accorded them in the United States market. The export taxes to be applied to sugar subject to quotas during the second 5 years of the Commonwealth period, however, will reduce the advantage of duty-free entry which the Philippine sugar producers now enjoy. 1/

1/ Although appreciable quantities of low grade sugar were produced in the Philippines prior to the American occupation, the modernization and increased production of the industry occurred long after Philippine sugar was accorded unrestricted duty-free entry into the United States. Because of the protection afforded that product in the United States market, it became profitable for the Philippine industry to utilize lands and methods of production which it would not have found profitable to use if the industry had been obliged to sell its sugar in competition with other producers in the world market. Relatively high costs of production in comparison with costs prevailing in certain other areas constitute a major adjustment problem of the Philippine sugar industry.

Should the quota system be abolished during the Commonwealth period, the various off-shore areas would be free from quantitative limitation, and sugar prices in the United States would again resume a more definite relationship to world prices. Assuming no changes in the United States duty, Philippine sugar would, in the absence of a quota system, have a tariff advantage over Cuban sugar in entering the United States during the entire Commonwealth period. Even in the tenth year, the export tax on the Philippine product would amount to only 0.46875 cent per pound, whereas the duty on Cuban sugar would equal 1.5 cents per pound, a difference in favor of the Philippines of 1.03125 cents per pound.

Immediately after independence, according to the present provisions of the Independence Act, Philippine sugar will be subject to the full United States duty. Cuba will then have the advantage of a rate at least 20 percent lower than the full duty under the terms of existing treaties and agreements. Cuba will probably have, in addition, the continued advantage of lower transportation costs. Should the United States, at that time, not be operating under a quota system, Philippine producers will be obliged to have a cost of production low enough to enable them to sell at world prices if they are to continue producing sugar for export. If, on the other hand, a quota system is still in force and if some allotment is made for Philippine sugar, then the prevailing price for sugar in the United States will be the principal factor influencing shipments of Philippine sugar to that market. It appears doubtful, however, on the basis of present prices, that any appreciable number of Philippine sugar producers could reduce their costs of production sufficiently to permit them to pay the full United States duty in 1946.

Character of recommendations

The Committee recommends that no change be made with respect to the provisions of the Independence Act affecting exports of sugar from the Philippines to the United States during the Commonwealth period. But the Committee recommends that after the Philippines becomes independent, the quota on sugar established in the Independence Act be continued, subject, however, to graduated import duties beginning with 25 percent of the United States duty in force on July 4, 1946, and increasing by 5 percent of the duty on each subsequent January 1, until all preferences are terminated on January 1, 1961. Shipments in excess of the quota should be subject to whatever United States duty may be in force at the time. This arrangement would bring about the gradual imposition of United States duties on a restricted quantity of Philippine sugar instead of subjecting the whole quantity of that product to the assessment of full duties in 1946. Such a modification of the Independence Act would afford the Philippine sugar industry an adequate period in which to make required adjustments.

Should the United States discontinue the quota system during the post-independence period, Philippine sugar, though subject to limitation, would still be accorded a tariff advantage over Cuban sugar in the United States market until 1957, assuming that Cuba continues to be the beneficiary of a 20 percent tariff preference. If, however, the United States should retain the quota system, there would be no effective competition among the various producing areas; and the ability of Philippine producers to market sugar in the United States at the prices then prevailing would depend upon whether Philippine costs of production could be reduced sufficiently to permit the payment of the required import duties.

COCONUT PRODUCTS

Coconut Industry in Philippine Economy

Development of the Philippine coconut industry

The coconut industry is one of the oldest and most important in the Philippines. When Magellan first arrived in Philippine waters, Siamese junks were already engaged in the copra trade. Throughout all but the last 60 years of the Spanish regime, however, exports of coconut products (as well as other products) were strictly limited.

The demand for copra and coconut oil was greatly stimulated during the World War period. The prices of all oils and fats rose to extremely high levels, but the price of coconut oil rose somewhat more than the prices of most others. (Coconut oil has a high glycerin content and is therefore in demand for the production of explosives.) The Philippines at that time not only expanded the acreage devoted to coconut palms, but also began to develop a coconut-oil export industry. By the termination of the war there were over 40 crushing mills in operation in the Philippines.

The cessation of hostilities was followed shortly by a world-wide depression, in consequence of which the demand for both oil and its byproduct, copra cake, declined sharply. Most of the oil mills had been capitalized on the basis of the high prices of oil, and the high costs of equipment, which prevailed during the war. By 1920, every coconut oil mill in the Philippines, with one exception, was forced into liquidation.

Most of the mills closed down, and the remainder modernized their equipment. At present there are 7 major firms (operating 8 plants) engaged in the production of coconut oil for export. There are also 10 small mills which crush oil for local consumption. The survival of the copra-crushing industry in the Philippines on an export basis was made possible largely because of the protection afforded by the United States Tariff Act of 1922, which imposed a duty of 2 cents per pound on coconut oil. This duty has served practically to exclude imports into the United States from sources other than the Philippines.

Organization of the Philippine Coconut Industry

The coconut-growing industry in the Philippines consists for the most part of small enterprises. The groves on which most of the coconuts are grown consist of plots of less than 10 acres, large plantations being comparatively few and confined chiefly to the more recently developed sections in the islands of Negros and Mindanao. Plantations in excess of 1,000 acres account in the aggregate for less than 1 percent of the total acreage devoted to coconuts.

In point of area under cultivation, coconut production ranks second in importance in the Philippines, being exceeded only by rice; it generally ranks third in value, being exceeded only by sugar and rice. There are no accurate data available concerning the number of people engaged in the production of coconuts. The Philippine Department of Agriculture and Commerce, however, estimates that about 4,000,000 people, or over 30 percent of the total population, are directly dependent on the industry for a part or the whole of their livelihood.

Coconuts are grown in every province in the Philippines, but the provinces on the island of Luzon account for approximately one-half of the total acreage under cultivation to this crop, and a single province (Tayabas) on Luzon accounts for almost one-half of the coconut acreage on this island. The island of Mindanao is second in importance in the production of coconuts, accounting for about one-sixth of the total acreage. None of the remaining islands accounts for as much as one-twentieth of the total coconut acreage in the Philippines. About 1,500,000 acres, or nearly one-fifth of the total area planted to all crops in the Philippines, are devoted to the cultivation of coconuts.

A number of the provinces in the Philippines depend predominantly or largely upon the coconut industry for their tax receipts. Tayabas obtains over 75 percent of its income from this industry; 6 other provinces obtain between 50 and 75 percent of their total from it; and at least 10 others obtain 25 to 50 percent from it.

Investments in coconut industry

Reliable data are not available concerning the value and ownership of either the lands devoted to the cultivation of coconuts or the mills and refineries engaged in the preparation of coconut products. Most of the estimates of land-value are based on the assessed valuations of the properties involved, and these do not reflect accurately either costs or market values. Estimates relating to the values and ownership of mills and refineries are not satisfactory because of the large number of extremely small establishments concerning which little information is available.

According to an unofficial Philippine estimate, the coconut industry in the Philippines represented a total investment value of \$221,215,000 on July 31, 1935. Ownership of land and mills was distributed among various nationalities as follows:^{1/}

Table 6. - Investments in Philippine coconut industry

	: Land and	:	Mills, refin-	:	Total invest-
	: improvements	:	eries, etc.	:	ments
Philippine ---:	\$194,665,000	:	\$905,000	:	\$195,570,000
American -----:	8,375,000	:	^{1/} 5,545,000	:	13,920,000
Spanish -----:	4,185,000	:	525,000	:	4,710,000
British -----:	-	:	3,495,000	:	3,495,000
All others ---:	2,095,000	:	1,425,000	:	3,520,000
Total -----:	209,320,000	:	11,895,000	:	221,215,000

^{1/} The American Trade Commissioner at Manila reported on July 9, 1936, that the 6 American companies engaged in producing coconut products represented investments in land and buildings amounting to \$1,112,500, and in machinery and equipment amounting to \$1,200,000. These firms employed 45 Americans whose aggregate annual salaries amounted to \$233,000.

Principal coconut products

According to recent estimates, approximately 93 percent of the coconuts harvested are first converted into copra, 6 percent into desiccated coconut, and the remaining 1 percent enter directly into local edible consumption. About 0.75 percent of the bearing coconut trees are devoted to the production of tuba, a native beverage made from the sap of the coconut palm. Nuts are not harvested from the trees tapped for this latter purpose.

^{1/} The Philippine Statistical Review, vol. 2, no. 4, Manila, 1936, p. 310.

No official quantitative data are available concerning the Philippine consumption of coconut products, but various estimates place it at from 10 to 20 percent of the annual production. The remainder is exported in a variety of forms, but primarily as copra, coconut oil, desiccated coconut, and meal and cake. These constitute the principal coconut products of the Philippines.

Copra. - Philippine copra usually commands a price in world markets which is much below that offered for the best qualities, and one which is only slightly above that offered for the very poorest qualities.

The quantity and value of Philippine exports of copra to all countries and to the United States for each year during the period 1928-37 are shown in table 7. It will be noted that unit prices declined sharply from the beginning of the period under review until 1934, the year during which the processing tax of 3 cents per pound on coconut oil became effective. In that year, the Philippines shipped to the United States a smaller percentage of the quantity and value of its total exports of copra than in any preceding year in the period, a situation which Philippine producers attributed to the imposition of the aforementioned excise tax. In terms of absolute quantities, however, the exports of copra from the Philippines to the United States in 1934 were exceeded in only 2 earlier years in the period. Moreover, the quantities shipped to the United States in the year immediately preceding and the year immediately following 1934 were the highest in the decade.

Unit prices of copra rose sharply after 1934, and by 1937 the unit price reached its highest annual level since the year 1930.^{1/} The total quantity of copra exported in 1937 was lower than in any preceding year since 1932, but the quantity shipped to the United States in 1937 was close to the highest in the decade. Of particular significance is the fact that the exports to the United States in that year constituted almost 88 percent of the exports to all countries, the highest percentage for any year in the period under review.

^{1/} The average unit price for the first quarter of 1938 was much below that for the year 1937.

Table 7. - Copra: Quantities and values exported from Philippines to all countries, and to the United States, 1928-37

Year	Exports of copra to all countries			Ratio of	Exports of copra to the United States		Ratio of
	Quantity	Value	Value per ton	value of exports of copra to total value of all Philippine exports	Quantity	Value	quantity of copra exported to the United States to total quantity of copra exported to all countries
	Short tons			Percent	Short tons		Percent
1928	258,400	\$22,542,341	\$87.24	14.5	201,265	\$17,603,832	77.9
1929	191,331	15,565,820	81.36	9.5	142,878	11,440,898	74.7
1930	192,133	13,433,438	69.92	10.1	155,603	10,654,348	81.0
1931	192,066	9,150,404	47.64	8.8	133,251	6,052,328	69.4
1932	151,282	5,133,227	33.93	5.4	91,522	3,056,066	60.5
1933	340,342	8,956,028	26.31	8.5	229,279	5,951,226	67.4
1934	377,768	8,605,124	22.78	7.8	169,186	3,900,060	44.8
1935	278,774	10,987,330	39.41	11.7	229,382	9,106,010	82.3
1936	320,864	14,999,784	46.75	10.2	201,193	9,772,482	62.7
1937	260,742	15,984,700	61.30	10.4	228,695	14,424,980	87.7

Source: Annual Reports, Insular Collector of Customs.

Coconut oil

The coconut oil business in the Philippines is primarily an export industry which sells in a single market, the United States. It is estimated that the Philippines export over 90 percent of the coconut oil it produces. The remainder is consumed in the Philippines, or is exported in the form of margarine, cooking fats, soap, or other manufactured products.

There are eight large coconut oil plants in the Philippines supplying principally the export trade, and ten small plants supplying solely the domestic trade. Six of the larger plants are in Manila and 2 in Cebu. The 10 smaller plants are in 7 different cities in various parts of the Philippines. Two of the 8 larger plants are owned by Americans, 2 by Englishmen, 2 by Spaniards, 1 by Chinese, and 1 by Filipinos. None of the smaller plants is American owned; Chinese own 5 of them, Filipinos 4, and Swiss 1.

The quantity and value of coconut oil exported from the Philippines to all countries and to the United States for each year in the decade 1928-37 are shown in table 8. It will be observed that, as in the case of copra, the unit price of coconut oil declined sharply from the beginning of the period under review until 1934, and then rose sharply in the following years. The unit price of coconut oil in 1937 was above that for any preceding year subsequent to 1929.

Practically all Philippine shipments of coconut oil have been to the United States. Both the quantity and the value of those shipments reached their lowest levels, in the decade under review, in 1934. The

quantities shipped in 1933 and 1935, however, were exceeded only once in any preceeding year in the period (1929). In 1937, the quantity, as well as the value, of coconut oil shipped to the United States was the third largest in the decade.

Table 8. - Coconut oil: Quantities and valued exported from the Philippines to all countries and to the United States, 1928-37

: Exports of coconut oil to :				: Exports of cocnut oil :		: Ratio of	
: all countries :				: to the United States :		: quantity of	
: :				: :		: coconut oil	
: :				: :		: exported to	
: :				: :		: the United	
: :				: :		: States to	
: Value :				: Value :		: total quan-	
: per ton :				: Quantity :		: tity of coco-	
: :				: :		: nut oil ex-	
: :				: :		: ported to all	
: :				: :		: countries	
: Short :				: Short :		: Percent	
: tons :				: tons :		: :	
: :				: :		: :	
928:	156,796:	\$23,489,172:	\$149.81:	15.1	: 155,241:	\$23,239,520:	99.0
929:	210,011:	29,184,942:	138.97:	17.7	: 207,990:	28,900,587:	99.0
930:	162,442:	19,155,382:	117.92:	4.4	: 161,051:	18,961,826:	99.1
931:	181,848:	15,035,322:	82.68:	14.5	: 163,948:	13,585,684:	90.2
932:	126,405:	7,651,144:	60.53:	8.0	: 121,539:	7,335,830:	96.2
933:	175,951:	9,169,823:	52.12:	8.7	: 173,622:	9,025,075:	98.7
934:	159,654:	6,794,871:	42.56:	6.2	: 149,843:	6,396,557:	93.9
935:	182,095:	12,254,581:	67.30:	13.0	: 178,731:	12,005,098:	98.2
936:	175,951:	13,871,759:	78.84:	9.4	: 166,365:	13,137,171:	94.6
937:	180,002:	20,525,537:	114.03:	13.4	: 176,706:	20,173,703:	98.2
:	:	:	:	:	:	:	:

Source: Annual Reports, Insular Collector of Customs.

Combined Trade in Copra and Coconut Oil

As shown in table 9, the combined exports of copra and coconut oil from the Philippines (expressed in terms of quantities of oil) fluctuated erratically, both to the world as a whole and to the United States, during the period 1928-37. The annual proportions shipped to the

United States generally ranged between 80 and 90 percent of the total exported to all countries, but in 1934 the proportion declined to less than 65 percent. The absolute amount shipped to the United States in that year, however, was only slightly below the annual average for the 10-year period. The quantity shipped to the United States in 1937 was higher than in any preceding year in the decade except 1935, and the proportion shipped to the United States in 1937 was the highest in the decade.

Table 9.- Copra and coconut oil combined: Quantities (expressed in terms of coconut oil) exported from Philippines to all countries with percentages thereof exported to the United States, 1928-37 ^{1/}

Year	Total quantity exported	Share of total exports in form of coconut oil	Total quantity exported to United States	Share of exports to United States in form of coconut oil	Ratio of quantity of copra and coconut oil exported to United States to total quantity exported to all countries
	Short tons	Percent	Short tons	Percent	Percent
1928	319,588	49.1	282,040	55.0	88.3
1929	330,550	63.5	290,006	71.7	90.2
1930	283,485	57.3	259,083	62.2	91.4
1931	302,850	60.0	247,899	66.1	81.9
1932	221,712	57.0	179,199	67.8	80.8
1933	390,367	45.1	318,071	54.6	81.5
1934	397,648	40.1	256,433	58.4	64.5
1935	357,723	50.9	323,294	55.3	90.4
1936	378,095	46.5	293,117	56.8	77.5
1937	344,269	52.3	320,784	55.1	93.2

^{1/} Copra is converted into its equivalent in coconut oil on the basis of 63 percent oil extraction.

Source: Annual Reports, Insular Collector of Customs.

Copra cake and meal

The residue remaining after the coconut oil is expressed from the copra is either marketed as cake, or it is ground and marketed in the form of meal. Since the chief use for these products is for cattle feed, and since the Philippine requirements for this purpose are small, practically the entire production of cake and meal is exported. Copra cake is also used as a fertilizer material, but the price which it commands in such use is not attractive except under emergency conditions. Copra cake does not possess the chemical properties which would permit it to be substituted in any appreciable degree for the fertilizer materials which the Philippines now imports primarily for use in the cultivation of sugar cane. The only important markets for Philippine copra cake, as such, have been in north Europe, whereas the only important market for the meal has been in the United States.

During the period 1928-33, as shown in table 10, the Philippines exported 85 percent or more of **its** combined cake and meal shipments to countries other than the United States. Since 1934, largely because of the feed shortage in the United States, the proportion sold in ^{that} market has increased very appreciably. Over 40 percent of the total exports went to the United States in 1937. Unit prices reached extremely low levels during 1933 and 1934, but in the following years they advanced sharply, reaching in 1937 the highest level since 1929.

Table 10.- Copra meal and cake: Quantities and values exported from the Philippines to all countries and to the United States, 1928-37

Year	Exports of copra cake and meal to all countries				Ratio of value of exports of copra cake and meal to total value of all Philippine exports	Exports of copra cake and meal to the United States				Ratio of quantity of copra cake and meal exports to the United States to total quantity of copra cake and meal exported to all countries
	Quantity	Value	Value per ton	Value per ton		Quantity ^{1/}	Value ^{1/}	Value per ton	Value per ton	
	Short tons			Percent		Short tons			Percent	
1928	90,006	\$2,886,137	\$32.07	1.9		10,541	\$358,854		11.7	
1929	125,434	3,792,786	30.24	2.3		11,676	407,170		9.3	
1930	99,102	1,892,224	19.09	1.4		14,953	327,934		15.1	
1931	108,716	1,520,802	14.99	1.5		6,328	97,648		5.8	
1932	83,608	1,053,666	12.60	1.1		3,840	55,741		4.6	
1933	110,139	1,057,554	9.60	1.0		11,874	129,154		10.8	
1934	109,847	1,051,120	9.57	1.0		36,381	447,410		33.1	
1935	112,286	1,639,424	14.60	1.7		35,359	617,680		31.5	
1936	119,343	1,829,539	15.33	1.2		57,046	1,034,247		47.8	
1937	121,836	2,900,179	23.80	1.8		51,034	1,418,801		41.9	

^{1/} Small amounts of copra cake and meal exported to the Hawaiian Islands are not included.

Source: Annual Reports, Insular Collector of Customs.

Desiccated coconut

Desiccated coconut first appeared among the Philippine exports in 1922, when the United States placed a duty of $3\frac{1}{2}$ cents per pound on this product and a duty of one-half cent each on raw coconuts.^{1/} Since then Philippine exports of desiccated coconut products have been almost exclusively to the United States, all of the other markets combined never having taken much in excess of one percent of total exports.

There were 12 desiccated coconut factories in the Philippines on September 1, 1937, 10 of which were in operation and 2 of which were temporarily closed. The plants owned by American investors account for approximately 80 percent of the output of the Philippines.

The unit price of desiccated coconut has tended to follow the general price movements of other coconut products, such as copra and coconut oil, but the fluctuations have been much more moderate. The exportation of desiccated coconut to the United States, as shown in table 11, has increased very rapidly during the past several years, both the volume and value in 1937 being much higher than in any preceding year.

^{1/} The term "desiccated coconut" as here employed refers to all varieties of dried coconut meat - "grated", "shredded", "wafered", and "ribboned" - intended for use in the preparation of confections and bakery goods. Such products, unlike copra, are handled and artificially dried under sanitary conditions.

Table 11. - Desiccated and shredded coconut: Quantities and values exported from Philippines to all countries, with percentages thereof exported to the United States, 1928-37 ^{1/}

Year	Exports of desiccated and shredded coconut to all countries				Ratio of exports of desiccated and shredded coconut to total value of all Philippine exports	Exports of desiccated shredded coconut to the United States				Ratio of quantity of desiccated and shredded coconut exported to the United States to total quantity of desiccated and shredded coconut exported to all countries
	Quantity ^{2/}	Value	ton	Value per ton ^{3/}		Quantity	Value	ton	Value per ton	
	Short tons			Percent		Short tons			Percent	
1928	22,448	\$3,723,586	\$197.47	2.4		22,419	\$3,718,268		99.9	
1929	24,566	3,540,124	171.36	2.2		24,547	3,537,004		99.9	
1930	21,972	2,962,844	160.53	2.2		21,943	2,958,710		99.9	
1931	18,543	1,822,128	116.98	1.8		18,522	1,819,691		99.9	
1932	17,717	1,616,701	108.63	1.7		17,704	1,615,446		99.9	
1933	19,761	1,682,804	101.38	1.6		19,733	1,679,997		99.9	
1934	25,944	2,254,540	103.45	2.0		25,931	2,253,236		100.0	
1935	37,443	3,962,315	125.98	4.2		37,275	3,941,938		99.6	
1936	37,161	4,397,063	140.86	3.0		36,694	4,353,138		98.7	
1937	44,913	6,346,632	168.23	4.1		44,573	6,304,296		99.2	

^{1/} The major portion of the small annual shipments not credited to the United States in this table are shipped to the Hawaiian Islands.

^{2/} Includes weight of containers.

^{3/} In computing unit values, 16 percent has been deducted from the gross weight shown in order to allow for the weight of containers.

Source: Annual Reports, Insular Collector of Customs.

Combined exports of major coconut products

On the basis of value, the aggregate exports from the Philippines of the four principal coconut products fell in 1932, as shown in table 12, to the lowest level reached in the 10-year period, 1928-37. The trade in that year was the smallest both in absolute value and in relation to the total value of all Philippine exports to all countries. Philippine trade in these products with the United States followed an almost identical course.

Commencing with 1934, the aggregate value of the aforementioned coconut exports both to the world as a whole and to the United States increased steadily. The value of these exports to all countries in 1937 was higher than in any earlier year since 1929, and it constituted a larger proportion of the value of the total exports of all commodities than in any year since 1929 with the exception of 1935. The same was true of the corresponding trade with the United States. In 1937, however, the value of the exports of the aforementioned coconut products to the United States constituted a greater proportion of the total value of such exports to all markets than in any other year in the period under review.

Table 12. - Principal coconut products: Values of total exports from the Philippines to all countries and to the United States, 1928-37 ^{1/}

Year	Value of principal coconut products exported to all countries	Ratio of value of exports of principal coconut products to total value of all Philippine products	Value of principal coconut products exported to the United States	Ratio of value of exports of principal coconut products to the value of exports of principal coconut exports to all countries
		Percent		Percent
1928	\$52,641,236	34.0	\$44,920,474	85.1
1929	52,083,672	31.7	44,285,658	85.0
1930	37,443,888	28.1	32,902,818	87.9
1931	27,528,657	26.5	21,555,351	78.3
1932	15,454,738	16.2	12,063,082	78.1
1933	20,866,209	19.7	16,785,452	80.4
1934	18,705,656	16.9	12,997,262	69.5
1935	28,843,650	30.6	25,670,726	89.0
1936	35,098,145	23.8	28,297,038	80.6
1937	45,757,048	29.8	41,321,780	90.3

^{1/} The coconut products included are copra, coconut oil, copra cake and meal, and desiccated coconut.

Source: Annual Reports, Insular Collector of Customs.

Minor coconut products

Philippine production of coconut products of minor importance has increased appreciably in recent years. Among the more important of these are soap, margarine, cooking oils and fats, fatty acids, glycerin, charcoal, and coir (fiber made from coconut husk). None of these has as yet attained great importance in the export field, although several show considerable promise.

Recent Legislation Affecting the Exportation of
Philippine Coconut Products to the
United States

Among the factors which have recently assumed major significance with respect to Philippine exports of coconut products to the United States are the following: The United States agricultural program, the droughts of 1934 and 1936 in the United States, the Philippine Independence Act, and the United States Revenue Acts of 1934, 1935, and 1936. The operation of some of these factors has tended to obscure the force of some of the others, and the operation of at least one of them, the Independence Act, has not as yet been significant. The purpose of the following discussion is to consider the present and probable future effects on Philippine interests which may properly be assigned to the provisions of (1) the Independence Act and (2) the United States Revenue Acts of 1934, 1935, and 1936, insofar as they affect, or are likely to affect, the exportation of coconut products to the United States. The effects of this legislation cannot be fully isolated from the effects of other factors, and any estimate for the future is particularly subject to error because of the unforeseen technological and economic changes which may develop.

Independence Act

The Independence Act provides for certain restrictions on the movement of Philippine coconut products to the United States. The major products -- copra, coconut oil, copra cake and meal, and desiccated coconut -- are to be affected as follows:

(1) During the first 5 years of the Commonwealth Government, the maximum quantity of coconut oil which may be admitted into the United States free of duty in any calendar year is 200,000 long tons (224,000 short tons). Any excess is subject to the full United States duty. No restrictions of any kind are placed on the movement of the other major coconut products from the Philippines to the United States.

(2) From the sixth through the tenth year of the Commonwealth Government, the duty-free quota on coconut oil will remain unchanged, but will become subject to the progressive Philippine export taxes to be applied against all Philippine exports to the United States which would be subject to duty if entered from a foreign country. Exports of coconut oil to the United States in excess of the duty-free quota will not be subject to Philippine export taxes, but they will be subject to the United States duty. The export taxes will also apply to desiccated coconut and to cake and meal, but not to copra, assuming the continuance of the present United States tariff rates and classifications.

(3) After the Philippines attains its independence on July 4, 1946, Philippine coconut oil will no longer be subject to the quota restrictions previously imposed by the Independence Act, nor will it be subject to the export taxes provided for in the act. At that time, all Philippine products entering the United States will be dutiable at the tariff rates applicable to similar imports from other countries.

The following table shows the export taxes to which the major coconut products will be subject, during the period of the Commonwealth Government, and the United States duties to which they will become subject thereafter. All computations are based on the United States tariffs now in effect; they do not take into account the excise taxes imposed by United States revenue acts, which will be considered later.

Table 13. - Philippine export taxes and United States duties applicable to the principal Philippine coconut products marketed in the United States

(Cents per pound)				
Period <u>1/</u>	Copra	Coconut oil <u>2/</u>	Copra cake and meal	Desiccated coconut
First 5 years of Commonwealth period -----	Free	Free	Free	Free
Sixth year-export tax = 5 percent United States duty -----	Free	0.1	0.015	0.175
Seventh year-export tax = 10 percent United States duty -----	Free	.2	.030	.350
Eighth year-export tax = 15 percent United States duty -----	Free	.3	.045	.525
Ninth year-export tax = 20 percent United States duty -----	Free	.4	.060	.700
Tenth year-export tax = 25 percent United States duty -----	Free	.5	.075	.875
After independence, beginning July 4, 1946, full United States duty -----	Free	2.0	.300	3.500

1/ The sixth year of the Commonwealth will begin Nov. 15, 1940; the Commonwealth period will end July 3, 1946.

2/ Coconut oil in excess of 200,000 long tons (224,000 short tons) per calendar year during the Commonwealth period is exempt from Philippine export taxes, but is subject to the full United States duty.

It does not appear that during the first 5 years of the Commonwealth period, the exports of the principal coconut products will be curtailed in consequence of the provisions of the Independence Act. Coconut oil is the only coconut product whose export to the United States is subject to any restrictions. The duty-free limitation in this case, however, amounts to 200,000 long tons per year.

During the second 5 years of the Commonwealth period, the exports of coconut products in the aggregate are not likely to be affected appreciably in consequence of any provisions of the Independence Act. But the composition of the major coconut exports is likely to undergo some important changes, since the export taxes will constitute a progressively increasing disadvantage for the Philippine producers of coconut oil in their competition with crushers located in the United States.

Philippine producers maintain that their costs of converting copra into coconut oil are substantially the same as those of producers in the United States. The advantage of the lower wage scales in the Philippines, they contend, is offset by the lower efficiency of the labor and by the greater costs for power, machinery, and replacement parts. Any possible advantage which crushers in the Philippines may actually have at present over producers in the United States must be confined principally to some fraction of the relatively small cost of converting copra into oil, since mills in the United States and in the Philippines buy copra on substantially similar terms. It is highly improbable, therefore, that the oil producers in the Philippines will be able to compete with mainland producers even for the whole of the Commonwealth period. In the last year of that period, the export tax on coconut oil will, on the basis of

present United States duties, amount to one-half cent per pound. Such a tax exceeds the entire present cost of converting copra into coconut oil either in the Philippines or in the United States.

To the extent that the Philippines will be obliged to curtail its exports of coconut oil to the United States during the second 5 years of the Commonwealth period, it should be able to increase its exports of copra. Consumption of coconut oil in the United States presumably will not be affected by Philippine export taxes so long as these are not applicable to copra. The export taxes, therefore, will operate to transfer the crushing industry from the Philippines to the United States. Should the transfer in fact occur, the Philippines would necessarily cease exporting copra cake and meal. The loss of the crushing industry would entail a small decline in employment in the Philippines, a shrinkage in Government revenues, and a loss of some capital (chiefly American and British) invested in the crushing mills. The export of desiccated coconut is not likely to be very seriously affected by the export taxes, since even in the last year of the Commonwealth period (on the basis of present United States duty) Philippine producers will still have a tariff preference in the United States market of over 2.6 cents per pound over other foreign suppliers.

After the Philippines attains its complete independence, any further important changes likely to affect the coconut industry in consequence of the provisions of the Independence Act will depend primarily on (1) whether the present United States excise taxes on oils and fats will then be in effect, and, if so, (2) whether coconut oil derived from Philippine copra will continue to enjoy its present preferential excise-tax status in the United States market. The existing United States revenue acts are not clear on this latter point.

If the present United States tariff and the present excise tax legislation remain in effect after July 3, 1946, and if Philippine-derived coconut oil remains in its present preferential excise-tax status, the only further change likely to affect the coconut industry in consequence of the provisions of the Independence Act will be a reduction of the output and profitableness of the desiccated coconut industry. The exports of coconut oil to the United States presumably will have been discontinued and replaced by copra in the second half of the Commonwealth period. But if this should not have taken place then, it appears practically certain that, on the basis of present tariff rates, coconut oil would no longer be exported to the United States after becoming subject to the full United States duty, inasmuch as it could not then compete in the American market with coconut oil crushed in the United States from imported, duty-free Philippine copra. Once the Philippines ceases exporting coconut oil it would, as was previously observed, cease exporting copra cake and meal.

The ability of producers in the Philippines to continue exporting desiccated coconut will depend principally on the degree to which they will be able to compete in the United States or in other world markets with Ceylon producers. Under competitive conditions which have existed during recent years, Philippine desiccators have been able to operate very profitably and on an increasing scale while selling their product in the United States at a price not greatly above that of the Ceylon product, duty unpaid. By the time Philippine independence is achieved, it is to be expected that Philippine production costs and profit margins will be reduced somewhat. It may well be, therefore, that the Philippines will be able to retain a substantial fraction of its market in the United

States for desiccated coconut even after that product becomes subject to the full United States duty. Some part of its market, however, the Philippines will doubtless lose to United States manufacturers and to Ceylon producers, chiefly the latter. A partial liquidation of the manufacture of Philippine desiccated coconut would not greatly affect the coconut industry as a whole in the Philippines. It would, however, result in a somewhat lessened demand for coconuts, in some curtailments in employment and government revenue, and in a loss of private capital, almost all of which is American.

Considering the effects of the provisions of the Independence Act for the whole period of the Commonwealth Government and for the period after independence, it does not appear that they will of themselves operate to restrict greatly the aggregate value or volume of exports of the major coconut products, except insofar as reduced shipments of desiccated coconut will be a factor, provided that, if the present excise taxes remain in effect after July 3, 1946, coconut oil derived from Philippine copra will continue to be taxed at the present rate. Throughout the Commonwealth period and thereafter, however, the United States excise taxes, independently of the provisions of the Independence Act, will continue to have an important effect on the Philippine coconut industry.

United States revenue acts

The United States Revenue Act of 1934 placed excise taxes on the importation of certain fish and marine-animal oils and on the first domestic processing of certain vegetable oils, among which Philippine coconut oil was specifically included.^{1/} The tax amounted to 3 cents

^{1/} The act became effective May 10, 1934, as to processing taxes, and May 11, 1934, as to import taxes.

per pound on the oil extracted (either in the Philippines or in the United States) from copra of Philippine origin, as compared with 5 cents per pound on oil extracted from copra of foreign origin.^{1/} The tax on the principal foreign competitive oils was 3 cents per pound. Section 602 $\frac{1}{2}$ of the act also provided that the excise taxes which the United States should collect on coconut oil produced either in the Philippine or in the United States from Philippine copra would be paid to the Treasury of the Philippine Commonwealth. The remittance of this money was made conditional on the Philippine Government not paying any subsidies to producers of copra, coconut oil, or allied products.

The Revenue Act of 1935 amended that of 1934 so as to place a compensatory tax on imported articles manufactured or produced in chief value from taxable oils. The rates were substantially the equivalent of the excise taxes which would have been collected had the oil ingredients been imported into the United States in the form of oil.^{2/} The principal effect of this law on the Philippines was to subject Philippine-made fatty acids, vegetable lard, soap, and other products made from coconut oil to the equivalent of the excise tax imposed on coconut oil.

The Revenue Act of 1936 amended both of the preceding revenue acts.^{3/} The most important changes, from the standpoint of the Philippines, were the extension of the list of taxable oils and the increases in rates on some of the oils already taxed. The rate on coconut oil was not changed.

^{1/} Coconut oil imported as such from countries other than the Philippines and Cuba is also subject to an import duty of 2 cents per pound. Coconut oil from Cuba, if any were imported, would be subject to an import duty of 1.6 cents.

^{2/} This change went into effect Sept. 30, 1935, or 30 days after the 1935 act became operative.

^{3/} This act was approved June 22, 1936, and the new rates became effective Aug. 21, 1936.

Excise taxes on coconut oil are collected by the United States Bureau of Internal Revenue on the first domestic processing. The receipts from coconut oil produced in the Philippines, or in the United States from Philippine materials, are credited to a special fund for remittance to the Philippine Treasury.

The net effect of the recent revenue acts, even as amended to date, has been to alter adversely the competitive position in the American market of Philippine-derived coconut oil as compared with oils and fats produced wholly in the United States, inasmuch as the excise taxes have been applied only against oils and fats of foreign and of Philippine origin. This legislation has also altered adversely the competitive position of Philippine coconut oil in comparison with several foreign oils, of more or less minor importance at present, which are exempt from the excise taxes and, in a few instances, exempt from import duties as well.

The preferential tax position accorded coconut oil of Philippine derivation has given the Philippines a larger share of the United States copra market than it previously had, but in view of the fact that it is still obliged to sell in the world market, there is considerable doubt that this has redounded as much to its advantage as might appear to be the case. The Philippines sells its copra in the United States generally at no price advantage over its sales in the world market, and foreign copra which formerly entered the United States now supplants substantially equivalent amounts of Philippine copra in other markets. The preference, however, has admittedly been of some actual benefit, and of even more potential benefit to the Philippines.

To the extent that the use of coconut oil in the United States has been lessened or the price (exclusive of the tax) depressed in consequence of the excise-tax legislation, the Philippine copra and coconut oil interests have been affected adversely. What effect this legislation may be expected to have after independence, even should it continue in force unaltered, is a matter for speculation. The revenue acts provide that the preferential rate shall be accorded to coconut oil crushed from copra originating in "the Philippine Islands or any other possession of the United States." Although the Philippines will no longer be a possession of the United States commencing July 4, 1946, coconut oil derived from Philippine copra may possibly be held to be entitled to preferential treatment in the United States on the basis of the wording of the existing laws. The present preferential rate on Philippine coconut oil (3 cents per pound) is the same as the rate applicable to a number of other imported oils which are competitive with coconut oil in varying degree. The imposition of the nonpreferential rate (5 cents per pound) on Philippine coconut oil, therefore, would result in adversely affecting the competitive position of this product in the United States market in respect of other foreign oils and fats, and would seriously injure the whole coconut industry in the Philippines.

The remittance of the proceeds of United States excise taxes on Philippine coconut oil to the Philippine Treasury represents gains for the Commonwealth government which very likely exceed any monetary losses which the Philippine coconut industry has suffered in consequence of the United States excise tax legislation. The processing tax has been high in relation to the oil -- about 100 percent when the law was introduced;

but it appears that a large but indeterminate portion of the tax has not been shifted back to Philippine producers. By the end of March 1938, the United States Treasury had collected \$61,115,123 for remittance to the Philippine Government, as shown in the following table:

Table 14.- United States Treasury receipts from processing taxes on coconut oil derived from Philippine copra ^{1/}

Period	Quantity	Tax
	<u>Pounds</u>	
1934 (May 10-Dec. 31) -----	254,679,382	\$7,640,381
1935 -----	596,296,765	17,888,903
1936 -----	580,370,062	17,411,102
1937 -----	511,275,202	15,338,256
1938 (Jan.1-March 31) -----	94,549,352	2,836,481
Total May 10, 1934- March 31, 1938 -----	2,037,170,763	61,115,123

^{1/} As provided for under Sec. 602 $\frac{1}{2}$ of the Revenue Act of 1934, effective May 10, 1934.

Source: U. S. Bureau of Internal Revenue.

Character of recommendations

Under existing legislation, Philippine coconut products shipped to the United States during the Commonwealth period will be subject to Philippine export taxes and, in the case of coconut oil, to United States quota limitations as well; but after the Philippines becomes independent on July 4, 1946, such products will no longer be subject to the aforementioned taxes or quota limitations. At that time, they will become subject to the United States tariffs and excise taxes applicable to similar products of other foreign origins, except that coconut oil made from Philippine copra may be held to be taxable at a preferential excise tax rate, by virtue of certain ambiguous provisions in the United States Revenue Act of 1934.

The Committee recommends that the following changes should be made in the treatment to be accorded Philippine coconut products which enter the United States during the Commonwealth period: Coconut oil should be exempt from Philippine export taxes but, in lieu thereof, should be subject to annually declining, duty-free quotas commencing with 200,000 long tons (of United States imports) for the calendar year 1940. This amount should be reduced by 5 percent for each succeeding calendar year until it equals 150,000 long tons for the calendar year 1945. For the period January 1, 1946, through July 3, 1946, the quota should be one-half of the quota for the preceding year, or 75,000 long tons. Shipments in excess of the aforementioned quotas should be subject to whatever United States duty may be in force at the time.

The Committee also recommends that the imposition of full United States duties should be postponed from July 4, 1946, to January 1, 1961, during which interim United States imports of coconut products, except coconut oil, should be subject to preferential tariff rates, commencing with 25 percent of the United States tariff rates in force on July 4, 1946, and increasing on each subsequent January 1, by 5 percent of the then existing rates. Coconut oil should be subject to the above duties only on those amounts in excess of declining, duty-free quotas, fixed as follows: For the period July 4, 1946, through December 31, 1946, the quota should be 75,000 long tons; for the following calendar year, it should be 140,000 long tons; and thereafter it should be reduced annually by 10,000 long tons (5 percent of 200,000 tons) until 1961.

The Committee further recommends that the United States excise tax rate applicable to all foreign coconut oil, if excise taxes on oils be in existence after the Philippines becomes independent on July 4, 1946, thenceforth be no higher than the rate applicable to palm oil (except for making tin plate) or to palm kernel oil.^{1/}

The Committee believes that if the above recommendations were adopted, the Philippine coconut industry would have an adequate opportunity to adjust itself to a position independent of preferential tariff and excise tax treatment in the United States market.

^{1/} The excise taxes on Philippine coconut oil, palm oil (except for making tin plate) and palm kernel are 3 cents per pound under existing law.

ABACA AND CORDAGE

ABACA

The abaca industry in Philippine economy

Abaca, popularly known as manila or manila hemp, is used in the manufacture of cordage. During the last 20 years the total acreage devoted to abaca culture (now amounting to about 10 percent of the cultivated area in the Philippines) has remained relatively constant at approximately 1,100,000 acres, although the area actually harvested, and therefore the production of the fiber, have varied from year to year. Production amounted to 221,300 tons in 1929 and to 121,500 tons in 1932. In the period 1934-37 the annual production has approximated 200,000 tons.

The principal regions in which abaca is produced, are in the island of Mindanao, in southern part of the island of Luzon, and in the islands of Leyte, Samar, and Masbate. Methods of cultivation and fiber extraction are not advanced, except in the Province of Davao, Mindanao, where American and Japanese producers have employed scientific methods of cultivation and have introduced a more extensive use of machinery for extracting the fiber. As a result of these improvements, production in the Province of Davao has increased and that in other sections has either remained stationary or declined. This province, which has the largest abaca acreage under cultivation in the Philippines, now raises about 35 percent of the total abaca fiber produced and about 75 percent of the total quantity of the principal grades used by rope manufacturers in the United States.^{1/}

^{1/} These grades are classified as J1, G, and I.

The investment in land, improvements, and machinery in the abaca industry is reported at \$185,000,000; of this amount, 90 percent is owned by Filipinos and the remainder principally by Americans and Japanese.^{1/} It is estimated that approximately 500,000 people are directly engaged in growing and in stripping manila hemp.

Manila fiber was the largest Philippine export crop in the nineteenth century. As late as 1903, it comprised 68 percent of the total value of all Philippine exports, but thereafter it declined in relative value. In 1937 exports of abaca amounted to 14.1 percent of the total value of all Philippine exports. Most of the abaca produced in the Philippines is exported as fiber, the consumption of local cordage factories being relatively small. The principal export markets are the United States, the United Kingdom, and Japan. Exports to Japan are usually the largest in quantity while those to the United States are the highest in value. In 1937 shipments to the United States amounted to 31.7 percent of the total value of Philippine exports of abaca and to 24.6 percent of the total quantity of such exports (see table 15).

^{1/} Philippine Statistical Review, vol. 2, no. 4, 1935, p. 310.

Table 15.- Abaca: Quantities and values exported from the Philippines to all countries and to the United States, 1928-37

Year	Total exports		Ratio of total : : value of exports: : of abaca to : : total value of : : all Philippine :		Exports to the United States		Ratio of exports of : abaca to the United : States to total ex- : ports of abaca to all : countries	
	Quantity :	Value	exports		Quantity :	Value	Quantity :	Value
	:Short tons:		: Percent		:Short tons:		: Percent	: Percent
	:	:	:	:	:	:	:	:
1928	: 192,677	: \$26,593,606	: 17.2	:	: 56,340	: \$9,527,045	: 29.2	: 35.8
1929	: 208,802	: 28,240,550	: 17.2	:	: 74,850	: 12,276,363	: 35.8	: 43.5
1930	: 186,610	: 18,426,676	: 13.8	:	: 64,715	: 7,638,029	: 34.7	: 41.5
1931	: 145,629	: 8,942,906	: 5.6	:	: 30,756	: 2,511,733	: 21.1	: 28.1
1932	: 116,607	: 5,015,602	: 5.3	:	: 27,709	: 1,481,576	: 23.8	: 29.5
1933	: 167,622	: 6,873,859	: 6.5	:	: 39,891	: 2,012,934	: 23.8	: 29.3
1934	: 192,352	: 8,661,568	: 7.8	:	: 46,386	: 2,695,895	: 24.1	: 31.1
1935	: 207,453	: 11,473,966	: 12.2	:	: 49,024	: 3,811,009	: 23.6	: 33.2
1936	: 184,221	: 17,088,598	: 11.6	:	: 41,713	: 5,336,710	: 22.6	: 31.2
1937	: 181,873	: 21,639,687	: 14.1	:	: 44,742	: 6,851,043	: 24.6	: 31.7
	: :	:	:	:	: :	:	:	:
	: :	:	:	:	: :	:	:	:

Source: Annual Reports, Insular Collector of Customs.

Inasmuch as the Philippines has a practical monopoly in the production of abaca, other nations are obliged to make most of their purchases there. The share of the United States in the export trade of abaca is consequently lower than in that of many other Philippine products. Abaca from all sources has entered the United States free of duty since 1890. Manila hemp does not compete with any product raised in the United States. As long as abaca remains on the United States free list, it will not be directly affected by the trade provisions of the Independence Act.

Character of recommendations

The Committee recommends that abaca be bound free of United States duty for the remainder of Commonwealth period (i.e., until July 4, 1946).

CORDAGE

The cordage industry in Philippine economy

Four cordage factories were operating in Manila during 1937. Three of the factories produce nearly all of the cordage manufactured in the Philippines. In 1935, American capital controlled 53 percent of the spindle capacity of the Philippines, Filipino capital controlled 41 percent, and Chinese 6 percent. Total investments in the industry are estimated at approximately \$3,000,000. The cordage mills in the Philippines are reported to employ about 1,000 persons whose salaries and wages approximate \$300,000 per annum.

Exports of cordage from the Philippines totaled 15,667,000 pounds in 1929; declined to 8,451,000 pounds in 1932, and amounted to 16,450,000 pounds in 1937. The value of exports was \$1,904,000 in 1929, \$659,000 in 1932, and \$1,436,000 in 1937.

In recent years, countries other than the United States have taken more than 50 percent of the quantity of cordage exported from the Philippines. From 1930 to 1935, shipments to the United States accounted for more than 50 percent of the value of the exports of cordage. Since 1935, shipments from the Philippines to the United States have been restricted because of the quota limitation imposed by the Cordage Act. During the decade under review, the unit values of shipments to the United States were greater than the unit values of exports to other countries. This condition may be attributed to the ability of the individual Philippine producers, operating through exclusive distributing agencies, to sell various types of rope in the

protected market of the United States at higher prices than could be obtained in foreign markets.

The increase in the exports of Philippine cordage in recent years has been marked, but exports of cordage constituted less than 1 percent of the value of total exports from the Philippines in 1937. (See table 16.)

Table 16.- Cordage: Quantities and values exported from the Philippines to all countries and to the United States, 1928-37

Year	Total exports		Ratio of total : value of exports: of cordage to : total value : of all Philippine exports		Exports to the United States		Ratio of quantity of exports of cordage to the United States to total quantity of such exports to all countries	
	Quantity	Value			Quantity	Value		
	Pounds		Percent		Pounds		Percent	
1928	14,494,705	\$1,775,436	1.1		5,393,029	\$721,121	31.2	
1929	15,667,016	1,904,272	1.2		6,850,770	932,731	43.7	
1930	13,858,457	1,553,227	1.2		6,769,412	841,565	48.8	
1931	10,224,805	887,408	.9		4,599,113	460,001	45.0	
1932	8,451,224	859,047	.7		4,447,832	411,207	52.6	
1933	12,907,781	906,768	.9		6,876,227	567,340	53.3	
1934	18,339,701	1,334,110	1.2		8,943,167	785,053	48.8	
1935	17,651,445	1,161,815	1.2		8,053,278	628,959	45.6	
1936	14,561,103	1,198,870	.8		3,918,022	449,692	26.9	
1937	16,449,336	1,436,461	.9		4,660,333	495,967	28.3	

Source: Annual Reports, Insular Collector of Customs.

Restrictions on the shipment of Philippine cordage to the United States

Cordage is one of the three Philippine export commodities for which duty-free entry into the United States is subject to limitation under the Independence Act. For the first 5 years of the Commonwealth period, the Independence Act fixes a duty-free quota of 3,000,000 pounds, any excess being subject to the full United States duty. The duty-free quota provided in the act is only about one-half of the average annual shipments from the Philippines to the United States during the period 1926-35, which average amounted to 6,012,000 pounds. The quota provisions in the Independence Act were, at the time of their adoption, far more restrictive of shipments of cordage than of either sugar or coconut oil. Quotas for the two latter were fixed at approximately the maximum annual shipments made prior to 1932, the year in which the Hare-Hawes-Cutting Act was drafted. If the quota for cordage had been determined on the same basis, it would have amounted to approximately 6,850,000 pounds rather than 3,000,000 pounds as now provided.

During the second 5 years of the Commonwealth period, according to the Independence Act, the duty-free limitation on shipments of Philippine cordage is to be continued but the quota is then to become subject to the progressive Philippine export taxes. These taxes are to begin at 5 percent of the United States duty on cordage in the sixth year of the Commonwealth and increase to 25 percent in the tenth year. After independence, Philippine export taxes will no longer be required by the United States, but the full United States duty will then be applied to all Philippine cordage imported into the United States. The present United States duty on cordage "wholly or in chief value of manila ***" is 2 cents per pound, and, for rope smaller than three-fourths of 1 inch in diameter an additional 15 percent ad valorem.

The cordage provisions of the Independence Act were superseded by an Act of Congress approved June 14, 1935. Under the latter act, (1) the duty-free limitation of "all yarns, twines, cords, cordage, rope, and cable, tarred or untarred, wholly or in chief value of manila (abaca) or other hard fiber" was raised from 3,000,000 to 6,000,000 pounds annually; (2) the increased quota is an absolute one, i.e., no Philippine cordage in excess of 6,000,000 pounds annually is to be admitted into the United States. The Cordage Act, which was subject to termination on May 1, 1938, was extended in 1938 by proclamation of the President of the United States with the concurrence of the President of the Philippines until May 1, 1941.^{1/} When the act expires exports of cordage will be governed by the provisions of the Independence Act.

The restrictions in the Cordage Act differ fundamentally from those imposed by the Independence Act. Whereas, that act permitted goods subject to quotas to enter the United States in excess of such quotas by paying full duty, the Cordage Act fixed a maximum which may not be exceeded. The quota fixed in the Cordage Act also included binder twine, which is on the United States free list. All United States imports of Philippine binder twine, therefore, must be included in the cordage quota although

^{1/} The following announcement was made by the White House when the President signed the Proclamation: "The President announced that his action in extending today by Proclamation the provisions of the Cordage Act of June 14, 1935, for another three years (the minimum period of extension permissible under the Act) was intended merely as a stop-gap measure to maintain, without prejudice, the status quo with respect to the importation of Philippine cordage into the United States until he may have occasion to make such recommendations on United States-Philippine trade as he may find appropriate after consideration of the report to be rendered by the Joint Preparatory Committee on Philippine Affairs."

foreign countries may ship to the United States unlimited quantities of this product free of duty. Only negligible quantities of binder twine have at any time been imported from the Philippines. The Cordage Act, moreover, limited shipments of cordage as of May 1, 1935, whereas the restrictions fixed by the Independence Act would not have become applicable until November 15, 1935, when the Commonwealth Government was inaugurated.^{1/}

Another factor affecting the shipment of Philippine cordage to the United States is the spread in the freight rates on baled abaca and on finished rope. Inasmuch as about 1 pound of abaca is required to produce 1 pound of rope, the current freight differential, corresponding to approximately 1 cent per pound, favors the movement of abaca rather than of rope.^{2/}

According to existing law, the entry of Philippine cordage into the United States during the Commonwealth period will be restricted by the absolute quota of the Cordage Act until May 1, 1941, and thereafter by the duty-free quota of the Independence Act. During the second 5 years of the Commonwealth, the Philippine export taxes will, moreover, reduce the advantage now enjoyed by Philippine cordage manufacturers in the United States. It does not appear, however, that the export taxes will of themselves cause any material reduction in the quantity of Philippine cordage exported to the United States. Immediately after the Philippines become independent, the application of the United States duties will

^{1/} The Cordage Act was approved June 14, 1935, but became effective retroactively May 1, 1935.

^{2/} Trans-Pacific Conference contract rates:

(1) Rope, effective April 1, 1938, Philippines to Atlantic and Gulf ports - \$48 per 20 cwt.

(2) Abaca, effective Feb. 1, 1938, Philippines to Atlantic and Gulf ports - \$4 per bale (278.3 pounds).

operate to reduce the quantity of Philippine exports of cordage, as well as the profits derived therefrom, but it seems unlikely that the duties will be prohibitive of all imports. The charges for transportation to the United States for this product constitute a third factor which may become as important in its effect upon Philippine shipments to the United States as either the Philippine export taxes or the United States duty.

Character of recommendations

The Committee recommends that, upon the expiration of the Cordage Act on May 1, 1941, an annual quota of 6,000,000 pounds, exclusive of binder twine, be imposed on imports of Philippine cordage into the United States. The Committee also recommends that shipments of Philippine cordage within that quota limitation be subject to Philippine export taxes, and that shipments in excess of that quota be permitted to enter the United States on payment of the full United States duty. Such an arrangement would extend to the Philippines, after the expiration of the present law, the same privilege accorded to foreign countries, i.e., the privilege of making unrestricted shipments of cordage to the United States upon the payment of the United States duty; moreover, it would bring the quota provisions for cordage into conformity with those which Congress has already established for sugar and for coconut oil. The Committee believes that binder twine should be excluded from the cordage quota, inasmuch as binder twine is permitted to enter the United States unrestricted and free of duty from all other sources.

The Committee further recommends that, after the Philippines becomes independent on July 4, 1946, the quota of 6,000,000 pounds be retained and that the cordage entering under that quota be subject to the graduated import duties previously referred to. Shipments in excess of the quota should be subject to the full United States duties then existing. This arrangement would afford the Philippine cordage industry an adequate period in which to make required adjustments with respect to that portion of its production which is marketed in the United States.

TOBACCO AND TOBACCO PRODUCTS

Tobacco culture and trade

Approximately 137,000 acres, or 1.4 percent of the cultivated land in the Philippines, are devoted to the culture of tobacco, which is largely concentrated in three regions. The first and most important district is the Cagayan Valley in northeastern Luzon, the second is situated along the northwestern coast of Luzon, and the third is in the islands of Cebu, Negros, and Panay. Tobacco is the principal crop in the Cagayan Valley; it is one of the major crops along the northwestern coast of Luzon, but is less important in the three Visayan Islands. Isabela Province, located in the Cagayan Valley, is the largest producer of leaf tobacco in the Philippines.

Tobacco is grown on a great number of small farms and on a few large plantations. The capital invested in tobacco lands and improvements approximates \$21,000,000.^{1/} Philippine landowners cultivate most of the tobacco land, although Spanish capital controls a few of the large plantations. Persons engaged in tobacco culture have been estimated to number 100,000. The laborers are employed either in the fields, or in the warehouses where the crop is grade and baled. Large manufacturers of tobacco products have representatives and maintain warehouses in the principal producing regions. The tobacco is purchased from the grower, is sorted and baled, and then is either exported abroad or shipped to the Philippine factory of the buyer, where it is prepared for use in the manufacture of various tobacco products.

^{1/} Philippine Statistical Review, Vol. 2, No. 4, 1935, p. 310.

The principal export markets for Philippine tobacco are Spain and the United States. Exports to Spain have regularly been in the form of leaf tobacco, while exports to the United States have been in the forms of cigars and, to a lesser extent, scrap and filler tobacco. Exports of Philippine leaf tobacco to Spain declined sharply in 1937 and, as a result, exports of Philippine filler tobacco to the United States increased.

CIGARS

The cigar industry in Philippine economy

Approximately 90 companies, 25 of which were located in or near Manila, were engaged in the manufacture of cigars during 1937; four of the latter accounted for the major part of production in the Philippines. Including warehouses, factories, and equipment, the total investment in the industry is estimated at about \$9,000,000. Spanish companies have the largest investment, about 60 percent of the total; American, Swiss, Chinese, and Filipino investors control the remaining 40 percent.

Over 15,000 factory laborers are employed in the manufacture of cigars. Much of the labor is paid on a piece rate basis on terms which vary in accordance with the quality of the cigar produced. Machinery is used in the manufacture of cigarettes and also in the wrapping of cigars with cellophane and in the banding of them; it is not used in the actual manufacture of cigars.

Of the total quantity of cigars produced in the Philippines, about 35 percent is consumed there and 65 percent is exported - 60 percent to the United States and 5 percent to other countries. Exports of cigars have usually constituted over 50 percent of the total value of exports of

tobacco and tobacco products; the percentage was 66 in 1937. In that year, total exports of cigars amounted to 204,602,000 valued at \$3,072,000, of which shipments to the United States totaled 181,380,000 cigars valued at \$2,668,000. (See table 17.)

Table 17.- Cigars: Quantities and values exported from the Philippines to all countries and to the United States
Calendar years 1928-37

Year	Total exports		:Ratio of total value : :of exports of cigars :		Exports to the United States		:Ratio of quantity of exports : of cigars to the U.S. to : total quantity of such ex- : ports to all countries	
	Quantity	Value	:to total value of all: : Philippine exports :		Quantity	Value		
	<u>Number</u>		: <u>Percent</u>		<u>Number</u>		: <u>Percent</u>	
1928:	220,884,441	: \$4,765,140	:	3.1	:	179,569,767	: \$3,885,672	: 81.0
1929:	188,333,006	: 3,824,649	:	2.3	:	150,945,425	: 3,013,355	: 80.1
1930:	178,560,744	: 3,545,223	:	2.7	:	144,767,520	: 2,810,279	: 81.1
1931:	183,873,661	: 3,395,337	:	3.3	:	158,520,284	: 2,885,366	: 86.2
1932:	182,574,853	: 3,231,218	:	3.4	:	164,615,726	: 2,885,524	: 90.2
1933:	196,141,404	: 3,157,933	:	3.0	:	180,714,153	: 2,823,117	: 92.1
1934:	222,820,144	: 3,605,510	:	3.3	:	203,895,812	: 3,231,772	: 91.5
1935:	223,117,286	: 3,399,380	:	3.6	:	204,013,225	: 3,030,218	: 91.4
1936:	178,334,078	: 2,746,327	:	1.9	:	158,977,240	: 2,372,181	: 89.1
1937:	204,619,993	: 3,072,360	:	2.0	:	181,378,340	: 2,667,606	: 89.6
:	:	:	:	:	:	:	:	:

Source: Annual Report of the Insular Collector of Customs.

Restrictions imposed by Independence Act

For the first 5 years of the Commonwealth, according to the provisions of the Independence Act, Philippine cigars will have unlimited free entry into the United States. During the second 5 years, progressive export taxes will be assessed against Philippine cigars shipped to the United States. Like the export taxes on other dutiable commodities, those on cigars will begin at 5 percent of the United States duty and rise to 25 percent in the tenth year of the Commonwealth. Commencing July 4, 1946, the Philippine product will be subject to the full United States duty. The present duty on cigars is \$4.50 per pound plus 25 percent ad valorem.^{1/}

In 1937, 189,900,000 Philippine cigars were sold in the United States; of this number over 99 percent were class A cigars, most of which were retailed at 2 for 5 cents.^{2/} Because of the low price, the export taxes provided for in the Independence Act will become a particularly heavy burden. Manufacturers of cigars in the Philippines cannot raise the retail price of their product without losing a substantial fraction of their United States market. The more expensive Philippine cigars have been unable to compete with cigars produced in the United States retailing at more than 5 cents each, and the cheaper cigars have encountered severe competition from United States machine-made cigars, especially in recent years.

^{1/} On most tobacco imports into the United States, the effective rates are 20 percent less than the rates appearing in the tariff act, inasmuch as the United States imports of tobacco products come chiefly from Cuba.

^{2/} Class A cigars are those which are tax-paid to retail at not more than 5 cents each. The United States internal revenue tax on class A cigars is \$2 per 1,000 cigars. Approximately 70 percent of the Philippine cigars shipped to the United States are priced to retail at 2 for 5 cents, 6 percent at 5 cents each, 3 percent at 3 for 5 cents, and 1 percent at more than 5 cents each.

The average price paid for Philippine cigars in the United States market in 1936 was \$15.14 per 1,000 cigars. ^{1/} This price included the United States internal revenue tax of \$2. ^{2/} The Philippine manufacturer, therefore, received \$13.14 per 1,000 cigars from which he had to deduct the cost of raw material, labor, overhead, packing, and shipping before arriving at a net profit. On the basis of the present United States duty and present wholesale prices, the export tax in the sixth year of the Commonwealth period will amount to \$4.20 per 1,000 cigars, leaving \$8.94 to cover the cost of manufacture; in the eighth year of the Commonwealth, the export tax will be \$12.59, leaving the manufacturer only 55 cents for 1,000 cigars; in subsequent years the tax would be greater than the selling price. It is obvious that shipments of Philippine cigars to the United States would, in the above circumstances, be abruptly curtailed by the imposition of the export taxes. ^{3/}

Character of recommendations

The Committee recommends that an annually declining, duty-free quota, which should also be free of export taxes, be established on shipments of Philippine cigars to the United States commencing with 200,000,000 cigars for the calendar year 1940, and that this amount be reduced by 5 percent for the calendar year 1941 and by an additional 5 percent for each calendar year thereafter until for the calendar year 1945, it would amount to 75 percent of the original total, or 150,000,000 cigars. The Committee recommends that, after the Philippines becomes independent, the quota of

^{1/} Annual Report, 1936, Collector of Internal Revenue, Philippine Commonwealth, p. 72. The average prices of Philippine cigars probably have not changed appreciably since that time.

^{2/} The internal revenue taxes collected on Philippine cigars sold in the United States are remitted to the Philippine Treasury by the United States Government. The amounts remitted during recent years have approximated \$500,000 annually.

^{3/} Any decline in the sale of Philippine cigars would affect adversely the sale of several United States products used in the manufacture of such cigars; these products include wrapper tobacco, banding and wrapping machinery, lithograph material for bands and boxes and foil and cellophane for wrapping. Over 80 percent of the Philippine cigars shipped to the United States are wrapped with American leaf tobacco.

150,000,000 cigars be continued free of import duties but subject to an annual reduction of 10,000,000 cigars beginning with the calendar year 1947, any excess above the quotas being subject to the full United States duty. Imports of duty-free Philippine cigars into the United States would thus be reduced gradually until they were eliminated at the close of 1960. Such an arrangement would afford Philippine cigar manufacturers an opportunity to liquidate gradually that portion of their business which is now dependent upon shipments made to the United States market and would permit the large number of laborers now employed by the cigar factories gradually to become adjusted to the altered status of the industry.

SCRAP AND STRIPPED FILLER TOBACCO

The scrap and stripped filler tobacco industry in Philippine economy

Scrap tobacco is a byproduct of the cigar and cigarette industries; while stripped filler tobacco is specially prepared by removing the stem from the tobacco leaf. The former is used principally in the production of low-priced machine-made cigars, and the latter is used in the production of various types and grades of "long-filler" cigars. The principal exporters of these products in the Philippines are cigar manufacturers who ship most of their cigars to the United States. Total exports of scrap and stripped filler tobacco in 1928 amounted to 4,799,000 pounds valued at \$539,000; exports declined to 1,797,000 pounds valued at \$143,000 in 1933, but rose to 7,225,000 pounds valued at \$637,000 in 1937. This marked increase is attributable principally to the decline in exports of Philippine leaf tobacco to Spain in 1937. Except for 1934, shipments to the United States have regularly accounted for over 90 percent of total exports of these products. (See table 18.)

Table 18. - Scrap tobacco, stripped filler, and cigar ends: Quantities and values exported from the Philippines to all countries and to the United States
Calendar years 1928-37

Year	Total exports		:Ratio of total value : :of exports of cigars : :to total value of all : : Philippine exports :	Exports to the United States		: Ratio of quantity of exports : of cigars to the U.S. to : total quantity of such ex- : ports to all countries
	Quantity	Value		Quantity	Value	
	<u>Pounds</u>			<u>Pounds</u>		
			<u>Percent</u>			<u>Percent</u>
1928:	4,799,322	\$538,922	0.3	4,377,092	\$504,143	91.2
1929:	4,032,524	412,066	.3	3,679,592	382,648	91.2
1930:	4,487,939	491,674	.4	4,368,530	482,982	97.3
1931:	3,750,097	474,648	.5	3,728,223	472,721	99.4
1932:	2,856,227	309,890	.3	2,848,753	309,310	99.7
1933:	1,796,899	143,462	.1	1,750,362	139,966	97.4
1934:	2,105,201	157,311	.1	1,616,089	122,324	76.8
1935:	3,267,599	270,124	.3	3,022,165	252,003	92.5
1936:	2,355,161	202,403	.1	2,159,593	186,644	91.7
1937:	7,224,794	637,243	.4	7,011,790	618,382	97.0

Source: Annual Report of the Insular Collector of Customs.

Restrictions imposed by the Independence Act

According to the terms of the Independence Act, scrap and stripped filler tobacco are not subject to quota limitation but will be subject to the export taxes beginning at 5 percent of United States duties in the sixth year of the Commonwealth, and rising to 25 percent in the tenth. After the Philippines becomes independent, full United States duties will be imposed. On the basis of the average unit value of Philippine exports of these products to the United States in 1937 (which was less than 9 cents per pound), the export tax in the tenth year would, on the basis of the present United States duty, be the equivalent of a tax of approximately 100 percent ad valorem. The present United States duty is 35 cents per pound on scrap tobacco and 50 cents per pound on filler tobacco, if stemmed and "not specially provided for." Such a tax would either drastically curtail or prohibit altogether shipments of these products to the United States.

Character of recommendations

The Committee recommends that an annually declining duty-free quota which should also be free of export taxes be established on shipments to the United States of Philippine scrap and stripped filler tobacco commencing with 4,500,000 pounds for the calendar year 1940, and that this amount be reduced by 5 percent for the calendar year 1941, and by an additional 5 percent for each calendar year thereafter until, for the calendar year 1945, it would amount to 75 percent of the original quota, or 3,375,000 pounds. The Committee recommends that, after the Philippines becomes

independent, the quota of 3,375,000 pounds be continued free of import duties but subject to an annual reduction of 225,000 pounds, beginning with the calendar year 1947, any excess above the quotas being subject to the full United States duty. Imports of duty-free Philippine scrap and stripped filler tobacco into the United States would thus be reduced gradually until eliminated completely at the close of 1960. This arrangement would permit Philippine manufacturers to make gradual reductions in their exports to the United States of scrap and filler tobacco while making similar adjustments in their exports of cigars.

TIMBER AND LUMBER

Timber and lumber in Philippine economy

Forest lands in the Philippines cover 41,886,000 acres or 57 percent of the total land area; forests considered to be profitable for commercial operations comprise 81 percent of the total forest area. Stands are well distributed through the archipelago, the island of Mindanao containing a larger area of commercial forest than any other island in the group. A wide variety of hardwoods is found in the Philippines, although over 75 percent of the standing timber is of the lauan family, the principal species of which are commonly referred to in the United States as "Philippine mahogany." Such fancy cabinet woods as true mahogany, walnut, and ebony either are not found in the Philippines or are relatively scarce.

The Philippine Government, which owns most of the forests in the Philippines, administers them through the Bureau of Forestry as part of the public domain. It maintains national parks and forest reserves, creates zones for commercial and community uses, and engages in reforestation, conservation work, and the prevention of the illegal destruction of timber. The Government, through the Bureau of Forestry, leases forest lands to lumbering and logging companies for periods ranging from 1 to 20 years. These companies are supervised by the Bureau and pay for the concession in accordance with the type and quantity of the timber cut. In recent years, the net income received by the Philippine Government from its administration of the forests has exceeded \$500,000 annually.

The sawmill industry has developed rapidly since the American occupation of the Philippines. In 1903 there were 14 sawmills, with a daily capacity of 80,000 board feet, producing lumber in the Philippines; by 1936, there were in operation 112 mills, with a daily capacity of ^{1/}1,400,000 board feet. Many of the companies operating sawmills are also engaged in logging. In addition, numerous operators, not associated with sawmills are engaged, at least part time, in logging operations only; their production, however, is relatively small. The total annual production of logs and lumber in recent years is estimated at about 1,000,000,000 board feet.

The lumber and timber industry was reported to represent an investment of about \$15,000,000 in 1937. The capital invested in sawmills was estimated to be in excess of \$13,500,000; the remainder consisted of the investments of small logging operators. American capital, invested primarily in the sawmill industry, was reported to approximate \$6,000,000; the American investment in fixed assets alone totaled \$2,307,000. Other nationals with investments in the Philippine log and lumber industry are Filipinos, Chinese, Japanese, Englishmen, and Spaniards. In 1937, the industry in all its branches provided employment for about 35,000 people in the archipelago.

The Philippine log and lumber industry is favored by a large and relatively stable market within the Philippines, approximately 80 percent of the annual production being utilized locally. This demand creates an outlet for low-priced lumber not suitable for export, and permits the maintenance of production despite fluctuations in foreign sales.

^{1/} Philippine Statistical Review, vol. 4, No. 3, 1937, pp. 360-367.

Exports of high-grade lumber, however, have been responsible for the major portion of the profit of many mills. Because of the development of the lumber industry, Philippine imports of lumber have steadily declined, until they now amount to less than 1 percent of Philippine production.

The United States and Japan are the most important export markets for Philippine hardwood. Shipments to the United States are made in the form of sawed cabinet woods of good quality and relatively high value. In 1937 these shipments equaled 13.7 percent of the volume and 32 percent of the value of total exports of logs and lumber from the Philippines. In earlier years, exports to Japan were composed principally of lumber, but more recently these shipments have consisted almost entirely of logs. The major portion (in terms of quantity) of total Philippine exports of logs and lumber are marketed in Japan. Other markets for Philippine lumber are the United Kingdom, China, Australia, and South Africa.

Exports of Philippine logs and lumber in recent years have been about 20 percent of total production. During the decade 1928-37 they never exceeded 3 percent of the value of total Philippine exports; in 1937, the figure was 2.6 percent. Exports of logs and lumber amounted to \$3,600,000 in 1929, but declined to \$835,000 in 1932; since that time they have steadily increased, reaching a value of \$3,943,000 in 1937 (see table 19).

Table 19.- Logs and lumber: Philippine exports to all countries and to the United States, 1928-37

Year	Total exports		Ratio of total value: of exports of logs and lumber to total value of all Philippine exports		Exports to the United States		Ratio of quantity of exports of logs and lumber to the United States to total quantity of exports of such pro- ducts to all countries	
	Quantity <u>1/</u>	Value			Quantity <u>1/</u>	Value		
	<u>1,000 board feet</u>		<u>Percent</u>		<u>1,000 board feet</u>		<u>Percent</u>	
1928	85,880	\$3,126,500	2.0		41,632	\$1,637,691	48.5	
1929	104,712	3,618,959	2.2		44,924	1,789,129	42.9	
1930	82,423	2,743,392	2.1		31,956	1,347,601	38.8	
1931	71,334	1,840,602	1.8		20,318	795,362	28.5	
1932	50,623	834,725	1.0		5,316	173,138	10.5	
1933	80,234	1,268,607	1.2		16,489	525,452	20.6	
1934	121,992	2,171,395	2.0		20,748	774,241	17.0	
1935	143,169	2,511,760	2.7		28,253	972,487	19.7	
1936	196,057	3,099,620	2.1		33,809	1,190,260	17.2	
1937	251,695	3,943,112	2.6		34,473	1,262,620	13.7	

1/ Converted from cubic meters to board feet at 424 board feet per cubic meter.

Source: Annual Reports, Insular Collector of Customs.

Restrictions imposed by the Independence Act

The Independence Act contains no special provision concerning lumber, but the Revenue Act of 1932 provides that the excise taxes thereby imposed "shall be treated for the purposes of all provisions of law relating to the customs revenue as a duty imposed by such act (i.e., the Tariff Act of 1930)." It is probable that this language, and the language of the Independence Act, will be so interpreted that, during the second half of the Commonwealth period, the Philippine Government will be required to impose export duties corresponding to specified percentages of the United States revenue tax on sawn hardwoods, there being no United States duty on Philippine mahogany.^{1/} After the Philippines becomes independent, if an import excise tax on lumber such as the existing one should be in effect at that time, Philippine lumber would be subject to it. The present tax, however, is not high in proportion to the value of the Philippine mahogany, which is valued at about \$40 per thousand board feet. It seems likely, therefore, that even if export taxes were imposed, they would not operate to reduce exports materially, and that even the full tax after independence would not reduce them greatly.

^{1/} Although the United States Tariff Act of 1930 imposes an ad valorem duty of 15 percent on certain so-called cabinet woods under par. 404, Philippine mahogany is not one of the woods specially provided for therein. (The paragraph specifically provides for Spanish cedar, lignum-vitae, lancewood, ebony, box, granadilla, mahogany, rosewood, satinwood, Japanese white oak, and Japanese maple.) It falls instead under the duty-free paragraph 1803. All lumber, both hardwood and softwood, is subject, however, when imported from foreign countries, to an excise tax imposed by the Revenue Act of 1932. The tax fixed in that act was \$3 per thousand board feet, but it was reduced to \$1.50 per thousand board feet by the trade agreement between the United States and Canada, which went into effect on Jan. 1, 1936. This import revenue tax provision was to have expired on June 30, 1934, but the expiration date has been extended on three occasions. The tax is now scheduled to expire on June 30, 1939.

Restrictions imposed by the Independence Act

The Independence Act contains no special provision concerning lumber, but the Revenue Act of 1932 provides that the excise taxes thereby imposed "shall be treated for the purposes of all provisions of law relating to the customs revenue as a duty imposed by such act (i.e., the Tariff Act of 1930)." It is probable that this language, and the language of the Independence Act, will be so interpreted that, during the second half of the Commonwealth period, the Philippine Government will be required to impose export duties corresponding to specified percentages of the United States revenue tax on sawn hardwoods, there being no United States duty on Philippine mahogany.^{1/} After the Philippines becomes independent, if an import excise tax on lumber such as the existing one should be in effect at that time, Philippine lumber would be subject to it. The present tax, however, is not high in proportion to the value of the Philippine mahogany, which is valued at about \$40 per thousand board feet. It seems likely, therefore, that even if export taxes were imposed, they would not operate to reduce exports materially, and that even the full tax after independence would not reduce them greatly.

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Character of recommendations

The Committee makes no recommendations with respect to exports of Philippine lumber to the United States during the Commonwealth period, but recommends that, after the Philippines becomes independent, such exports be made subject to graduated import duties, beginning with 25 percent of the then existing United States duties and increasing by 5 percent of such duties on each subsequent January 1, until all preferences are terminated on January 1, 1961.

EMBROIDERIES

The embroidery industry in Philippine economy

Embroidering is predominantly a household industry which provides a large number of families in the Philippines with supplementary incomes. The principal embroidery establishments are located in Manila. In these plants, which are largely distributing centers, the imported cloth is cut and stamped and then delivered to the workers in neighboring provinces through contractors or sub-contractors. When the work is completed, the embroidered articles are returned by the contractor to the plants where they are inspected, trimmed, assembled, laundered, and packed for export. Most of the actual embroidering is done in the homes of workers who live in provinces surrounding Manila, but some is also done in more distant provinces.

The various types of needlework are usually done by different workers. One embroiders scallops, another does the hemstitching, while a third makes the buttonholes or does the drawn work. This division of labor necessitates an elaborate system for the distribution of materials among the workers. It is the task of contractors and sub-contractors to handle this distribution and to expedite the work. The completion of a garment usually requires 3 to 6 months and occasionally 9 to 12 months. Because of the time required for the imported cloth to reach the Philippines and for the finished product to be returned, approximately 1 year elapses before an order can finally be delivered in New York. Owing to the time factor, producers in the Philippines manufacture principally staples rather than style goods, which are subject to sudden and unpredictable changes. The Philippine embroidery industry produces primarily infants' wear, and women's underwear, slips, and nightgowns.

Practically all of the cloth used by the industry is cotton, which is imported from the United States in order that the finished embroidery may be permitted to enter the United States free of duty.^{1/} The firms engaged in the embroidery business are either (1) branches of companies with head offices in the United States, or (2) independent concerns which sell to importers in the United States.

Approximately 30 firms were operating in the embroidery business in 1937; most of these were engaged in both production and export. The industry as a whole is reported to represent an investment of about \$4,000,000, a substantial part of which consists of goods in process and in transit. The investment in plant and equipment is relatively small. It is estimated that investments by United States citizens total approximately \$3,000,000, most of the remainder being owned by Filipinos.

Between 30,000 and 50,000 people are employed in the industry, primarily on a part-time basis. The number varies with the quantity of orders on hand and with the seasonal availability of alternate forms of employment for the workers. The wages, paid almost entirely on a piece-rate basis, are relatively low despite high-grade workmanship. The cost of raw material constitutes about one-half of the cost of the finished product, the remainder being accounted for largely by labor costs and profits.

^{1/} The United States tariff law provides that Philippine products, to be admitted free of duty, shall not contain in value more than 20 percent of foreign materials.

The Philippine exports of embroidery to the United States represent actual Philippine exports only to the extent of about one-half their value, inasmuch as the other one-half represents a re-export of American cotton cloth. During the period 1928-37, exports of embroidery were highest in 1929, being valued at \$5,764,000; they declined to \$1,825,000 in 1933, and amounted to \$3,560,000 in 1937. During the same period, over 98 percent of total Philippine exports of cotton embroideries were shipped to the United States (see table 20).

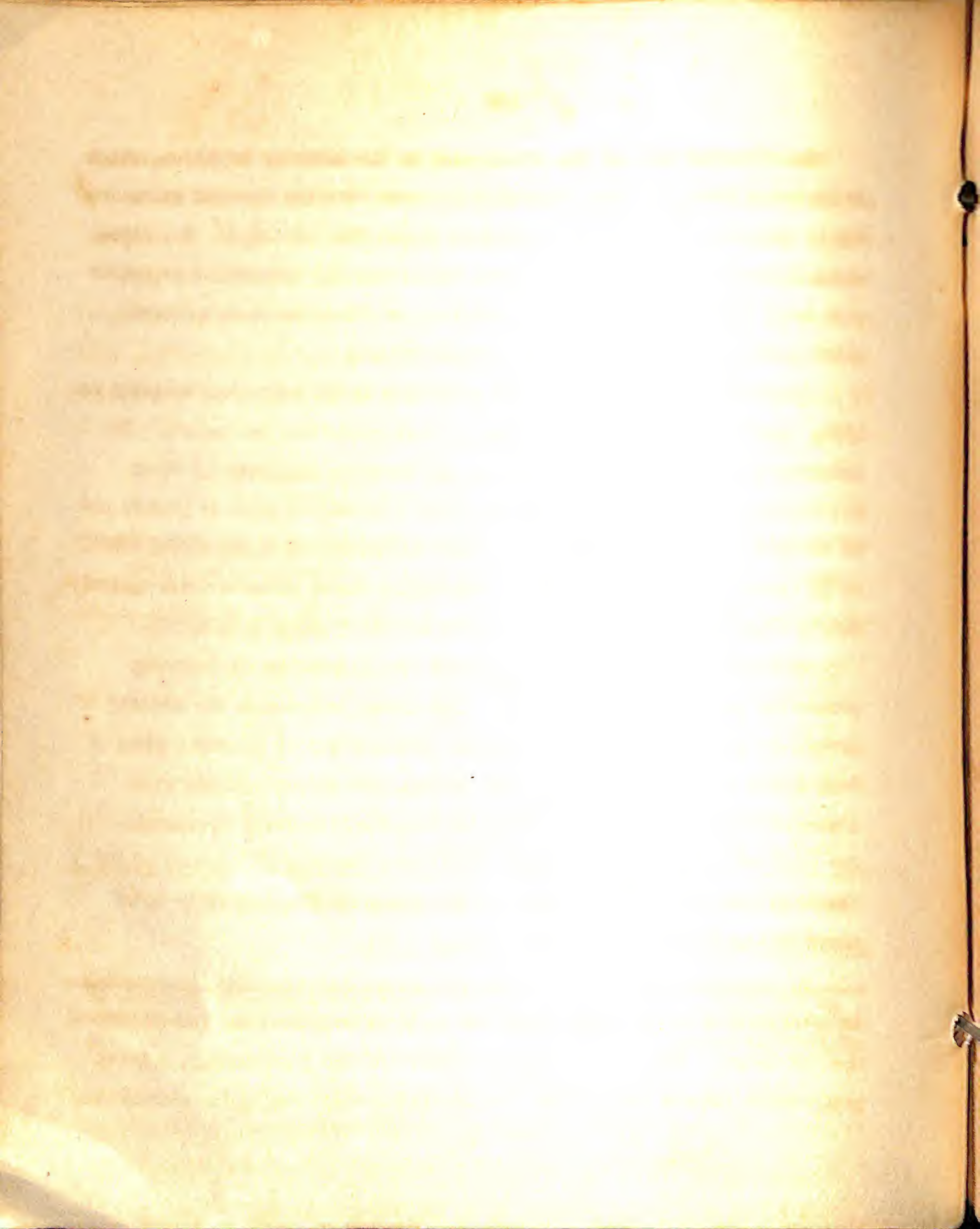
Table 20.- Cotton embroideries: Philippine exports to all countries and to the United States, 1928-37

Year	Total exports	Exports to the United States	Ratio of the value of exports of embroidery to the United States to total value of such exports to all countries
			Percent
1928	\$4,396,237	\$4,356,599	99.1
1929	5,764,346	5,716,504	99.2
1930	3,412,667	3,366,088	98.6
1931	2,520,447	2,488,925	98.6
1932	3,267,044	3,251,759	99.5
1933	1,830,669	1,825,199	99.7
1934	2,561,246	2,553,950	99.7
1935	4,996,280	4,989,318	99.9
1936	4,192,221	4,184,261	99.8
1937	3,579,776	3,561,425	99.5

Source: Annual Reports, Insular Collector of Customs.

Restrictions imposed by the Independence Act

No limitations are placed by the Independence Act upon the quantity of embroideries which may enter the United States from the Philippines free of duty. During the second 5 years of the Commonwealth, however, progressive export taxes will be assessed against Philippine embroideries



which are shipped to the United States. As in the case of other dutiable commodities, the export taxes will correspond to 5 percent of the United States duty in the sixth year of the Commonwealth and will rise to 25 percent in the tenth year. After July 4, 1946, the full United States duty will be collected on this Philippine product. The United States duty on embroidered cotton (and silk) wearing apparel, fixed at 90 percent ad valorem by the Tariff Act of 1930, is now 75 percent ad valorem as a result of the trade agreement with France, which became effective June 15, 1936.^{1/}

Since Philippine embroideries at present encounter competition in the United States market, and since most of the Philippine embroideries are sold in retail markets where the demand is for low-priced goods, it does not appear probable that their prices can be increased sufficiently to absorb the export taxes without losing a substantial part of the United States market. The cost of raw materials, moreover, is not subject to the control of embroidery producers. The export taxes, as has been pointed out, will be assessed against the whole value of the finished product and not merely against the value added in the Philippines. The laborers now engaged in the production of Philippine embroidery will not readily find alternate employment when the export taxes begin to apply, consequently it is likely that the effect of the taxes will be to force progressively lower wages. Whether the export industry will be able to survive on the present scale for the whole of the Commonwealth period is problematical; that it will survive on an appreciable scale thereafter appears improbable.

^{1/} Nearly all of the imports of Philippine embroideries into the United States would fall under this classification if they were entered from a foreign country.

Character of recommendation

The Committee recommends that, during the Commonwealth period, the export taxes on shipments to the United States of Philippine embroideries made of cloth which is the product of the United States be assessed on the basis of the dutiable value as now provided by United States law, less the value (c.i.f. the Philippines) of the cloth embodied in such embroideries. The Committee recommends further that, after the Philippines becomes independent, a similar provision with respect to the assessment of graduated import duties be retained in force until January 1, 1961. Such a provision would exempt from graduated export taxes and graduated import duties cloth of United States origin, and would materially reduce the amount of taxes and duties to be assessed on Philippine embroideries during the adjustment period. It would afford the large number of Philippine workers now employed by the industry, and the producers in the Philippines, opportunities to make required adjustments.

CANNED PINEAPPLES

The canned pineapple industry in Philippine economy

The commercial production and canning of pineapples is confined principally to the operations of a single company. Its cannery is on the seacoast of northern Mindanao, near the town of Cagayan, and its plantation lies about 15 miles to the south on the Bukidnon Plateau. The planting of pineapples was begun in 1928; by 1935, approximately 2,000 acres were under cultivation. Since then the area has been expanded and will probably be expanded further during the next few years. Both the plantation and the cannery, which has a capacity of about 350,000 cases per year, are owned and operated by a subsidiary of a large United States packing corporation also engaged in the production and canning of pineapples in the Territory of Hawaii. The investment in the industry is estimated at \$1,000,000.

Exports of canned pineapples from the Philippines were made first in 1930. They increased in quantity and value until 1933, when production was reduced in conjunction with a reduction program adopted by producers in the Territory of Hawaii. Exports in 1934 were resumed on a less restricted basis; in 1937, exports were the largest on record, amounting to over 24,000,000 pounds valued at \$1,673,000 (see table 21). In the latter year exports of canned pineapples, for the first time, amounted to more than 1 percent of the value of total Philippine exports. All exports of canned pineapples from the Philippines are sold in the United States.

1870	Jan 1	Balance	100.00
	Feb 1	Interest	1.00
	Mar 1	Interest	1.00
	Apr 1	Interest	1.00
	May 1	Interest	1.00
	Jun 1	Interest	1.00
	Jul 1	Interest	1.00
	Aug 1	Interest	1.00
	Sep 1	Interest	1.00
	Oct 1	Interest	1.00
	Nov 1	Interest	1.00
	Dec 1	Interest	1.00
1871	Jan 1	Balance	100.00
	Feb 1	Interest	1.00
	Mar 1	Interest	1.00
	Apr 1	Interest	1.00
	May 1	Interest	1.00
	Jun 1	Interest	1.00
	Jul 1	Interest	1.00
	Aug 1	Interest	1.00
	Sep 1	Interest	1.00
	Oct 1	Interest	1.00
	Nov 1	Interest	1.00
	Dec 1	Interest	1.00

Table 21.- Canned pineapples: Exports from the Philip-
pines, 1930-37 1/

Year	Quantity	Value	:Value : per : pound	Year	Quantity	Value	:Value : per : pound
	<u>Pounds</u>		<u>Cents</u>		<u>Pounds</u>		<u>Cents</u>
1930	1,074,822	\$96,044	8.9	1934	6,739,434	\$409,244	6.1
1931	3,538,482	150,041	4.2	1935	2,639,056	157,398	6.0
1932	5,742,804	298,485	5.2	1936	8,371,991	501,523	6.0
1933	3,031,650	133,986	4.4	1937	24,159,389	1,672,849	6.9

1/ Export statistics for the years 1930 and 1931 are for canned fruit and canned fruit products; these consisted chiefly of canned pineapples. Canned pineapples were not reported separately until 1932.

Source: Annual reports, Insular Collector of Customs.

Restrictions imposed by the Independence Act

The Independence Act places no restriction upon the shipments to the United States of canned pineapples from the Philippines during the first 5 years of the Commonwealth period. During the second 5 years, the progressive export taxes will be applicable to such shipments. After independence is attained, canned pineapples will become subject to the then existing United States duty; based on the average unit values of exports in 1937, and the present United States duty of 2 cents per pound, the ad valorem equivalent would then approximate 30 percent.

Because of comparatively low production costs, Philippine exports of canned pineapples will probably not decline as a result of the application of export taxes. The effect of the United States duty, after Philippine independence is realized, is largely indeterminate; it will depend on future costs of production in the Philippines, future tariff rates in the United States, agreements and understandings with Hawaiian pineapple packers, and the prices of pineapples and competing canned fruits in the United States.

Character of recommendations

The Committee makes no recommendations with respect to exports of canned pineapples from the Philippines to the United States during the Commonwealth period, but recommends that, after the Philippines becomes independent, such exports be subject to graduated import duties beginning with 25 percent of the then existing United States duty and increasing by 5 percent of the duty on each subsequent January 1, until all preferences are terminated on January 1, 1961.

HATS

The hat industry in Philippine economy

The Philippine fiber-hat industry is centered in two towns, Baliuag and Lucban, on the island of Luzon. The weaving of hats, which is done chiefly by hand, is a household industry. Some weaving is done in factories where hats are manufactured by machine from coarse fiber. The machine-made product is composed chiefly of bamboo, straw, or abaca fiber, while the hand-made hats are woven with buntal fiber obtained from the leaf of the buri palm. Buntal hats or bali-buntal hats (the latter having a somewhat different and finer weave) are the principal types exported; the others are manufactured primarily for the Philippine market.

The hand-woven hats are purchased from the weavers by agents of wholesale dealers or exporters. They are finished and packed for export in Manila. The finishing process involves weaving an edge on the brim, after which the hats are washed and ironed. When finally packed for export, they are usually not blocked or trimmed and not bleached, dyed, or colored.

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In 1935, 16 plants were engaged in finishing hats and in preparing them for export. The capital invested in the industry in that year was estimated at \$2,000,000, of which \$1,750,000 represented working capital used chiefly in making advances to the weavers, and the remainder, investment in plant and equipment. Twenty-nine firms, including the 16 already referred to, are exporters of hats, and 17 firms are exporters of buntal fiber. China is the principal market for the latter product. It is estimated that the hat-making industry employs from 40,000 to 60,000 weavers.

During the decade 1928-37, the largest exports occurred in 1928, when 1,426,200 hats valued at \$3,359,000 were shipped from the Philippines. Exports in 1937 were the lowest in value, totaling 565,394 hats valued at \$466,545. From 1928 to 1933, the unit value of exports declined steadily from \$2.35 to 77 cents; in 1937, it amounted to 83 cents. The United States has regularly been the principal market for Philippine hats, having taken over 75 percent of the quantity of total exports in 1936 and 1937; other important markets have been the United Kingdom, France, and Italy. The average unit value of hats shipped to the United States has generally been higher than the unit value of those shipped elsewhere (see table 22).

Table 22.- Hats: Exports from the Philippines to all countries and to the United States, 1928-37 ^{1/}

Year:	Exports to all countries				Exports to the United States			
	Quantity	Value	Unit value	Ratio of total	Quantity	Value	Unit value	Ratio of number of
				value of ex-				hats exported to
				ports of hats				the United States
				to total value				to total number of
				of all Philip-				hats exported to
				pine exports				all countries
	<u>Number</u>			<u>Percent</u>	<u>Number</u>			<u>Percent</u>
1928:	1,426,202	\$3,358,963	\$2.35	2.2	842,021	\$2,277,125	\$2.70	59.0
1929:	950,741	2,048,729	2.15	1.3	651,820	1,547,424	2.37	68.6
1930:	869,011	1,271,607	1.46	1.0	669,060	981,721	1.47	72.0
1931:	539,224	555,030	1.03	.5	293,273	341,538	1.16	54.4
1932:	744,536	593,590	.80	.6	535,890	436,757	.82	72.0
1933:	988,490	766,056	.77	.7	700,465	554,894	.79	70.9
1934:	1,227,989	1,141,875	.93	1.0	712,317	697,584	.98	58.0
1935:	538,381	474,821	.88	.5	251,708	240,125	.95	46.8
1936:	728,032	588,289	.81	.4	571,048	479,877	.84	78.4
1937:	565,394	466,595	.83	.3	437,401	383,440	.88	77.4

^{1/} Includes all types of hats, i.e. bamboo, buntal, buri, and straw. Buntal hats constitute the largest individual types, averaging in value over 90 percent of total exports of hats.

Source: Annual reports, Insular Collector of Customs.

Restrictions imposed by the Independence Act

Under the Independence Act, no restrictions are imposed upon the shipment of Philippine hats to the United States during the first 5 years of the Commonwealth. During the second 5 years, export taxes will be collected on hats shipped to the United States. After the Philippines becomes independent, imports of Philippine hats into the United States will be subject to the full United States duty, which is at present 25 percent ad valorem on hats which are not bleached, dyed, colored, or stained.

Buntal hats are designed principally for women, consequently, the fluctuations in the quantity and value of exports from the Philippines may be explained in part by changes in fashions. It is possible that changes in styles, as well as the competition from hats imported from foreign countries, will prove more important factors governing the future of the market for Philippine hats in the United States than either the export taxes or the United States duty.

Character of recommendations

The Committee makes no recommendations with respect to exports of Philippine hats to the United States during the Commonwealth period, but recommends that, after the Philippines becomes independent, such exports be subject to graduated import duties beginning with 25 percent of the then existing United States duty and increasing by 5 percent of the duty on each subsequent January 1, until all preferences are terminated on January 1, 1961.

CUTCH

The cutch industry in Philippine economy

Cutch is an extract containing tannin and is used in dyeing and tanning. It is obtained in the Philippines from the bark of mangrove trees, forests of which are found on the islands of Mindanao and Palawan, in the Sulu Archipelago, and on the east coast of Luzon. Other stands of mangrove trees are scattered throughout the Philippines but are not sufficiently large to be of commercial importance.

One company, located in Zamboanga, Mindanao, manufactures most of the cutch extract produced in the Philippines. It was organized in 1927 and began exporting in 1928. The company has a license agreement with the Philippine Government, effective until January 1, 1942, to cut, collect, and remove mangrove bark in Provinces in the southern part of the Philippines. The plant and equipment at Zamboanga have an estimated value of \$250,000 and a production capacity of 6,000 tons of cutch extract per year. Export statistics (see table 23) indicate that the plant has been operating at near capacity since 1930, except for 1932. Approximately 150 men are employed in the factory, and 1,250 men are employed in gathering and transporting the bark and in removing from the forest, as required by Philippine forestry regulations, the wood from which the bark is stripped.

Annual exports during the decade 1928-37, averaged 11,750,000 pounds, valued at \$265,000. Owing to depressed economic conditions in 1932, shipments declined to 9,400,000 pounds valued at \$200,000, but by 1935 they increased to 13,368,700 pounds, valued at \$267,000. In 1937, they amounted to 12,315,000 pounds valued at \$348,000 (see table 23). Since 1932, all exports from the Philippines have gone to the United States.

These shipments have not been an important factor in Philippine foreign trade; they have never amounted to as much as 0.5 percent of total Philippine exports.

Table 23. - Cutch extract: Exports from the Philippines, 1928-37

: Quantity	: Value	: Value	: per	: Year	: Quantity	: Value	: Value
:	:	: pound	: per	:	:	: pound	: per
: Pounds	:	: Cents	:	:	: Pounds	:	: Cents
1928: 4,236,754	: \$101,726	: 2.4	::	1933: 11,614,527	: \$232,198	: 2.0	
1929: 8,427,909	: 191,189	: 2.3	::	1934: 12,634,928	: 252,841	: 2.0	
1930: 11,426,478	: 257,152	: 2.3	::	1935: 13,368,741	: 267,375	: 2.0	
1931: 11,331,447	: 247,370	: 2.2	::	1936: 12,003,957	: 323,036	: 2.7	
1932: 9,446,712	: 200,414	: 2.1	::	1937: 12,314,827	: 347,889	: 2.8	
:	:	:	::	:	:	:	:

Source: Annual Reports, Insular Collector of Customs.

Restrictions imposed by the Independence Act

The only restrictions placed by the Independence Act on the shipment of cutch extract from the Philippines to the United States are the export taxes to be imposed during the second 5 years of the Commonwealth period, and the United States duty which is to be imposed after independence is attained. On the bases of the unit value of imports in 1937, amounting to \$56 per short ton, and the present United States duty of 15 percent ad valorem the specific equivalent would then amount to \$8.40 per short ton. Current prices for cutch extract indicate that exports from the Philippines are not likely to be affected materially by the application of either the Philippine export taxes during the Commonwealth period or the United States duty after Philippine independence is attained.^{1/}

^{1/} The price of Philippine cutch extract in the United States market in March, 1938, was quoted at 6.5 cents per pound or \$130 per short ton.

Character of recommendations

The Committee makes no recommendations with respect to exports of cutch extract from the Philippines to the United States during the Commonwealth period, but recommends that, after the Philippines becomes independent, such exports be subject to graduated import duties beginning with 25 percent of the then existing United States duty and increasing by 5 percent of the duty on each subsequent January 1, until all preferences are terminated on January 1, 1961.

PEARL BUTTONS

The pearl button industry in Philippine economy

Philippine ocean pearl buttons are manufactured in Manila from mother-of-pearl, trochus, and snail shells gathered in waters surrounding the Visayan Islands. Although 3 plants have produced pearl buttons, only 1, which manufactures approximately two-thirds of the quantity exported, has been able to operate continuously during the period 1928-37. In its manufacturing processes the industry employs about 600 people. Salaries and wages are estimated at \$125,000 a year. The total investment in machinery, tools, and equipment is approximately \$100,000, nearly all of which is American capital.

Exports of pearl buttons constitute 75 percent of total production, the remainder being consumed within the Philippines or applied to garments which are exported. For the decade 1928-37, exports were highest in 1930, when they totaled 850,000 gross, valued at \$380,000; they declined to their lowest level in 1935, aggregating 694,000 gross, valued at \$237,400. Exports in 1937 amounted to 776,000 gross valued at \$274,500 (see table 24). The highest average value per gross in this period was 51 cents in 1929; the lowest was 32 cents in 1936.

Practically all of the buttons exported are sold in the United States. During the period 1928-37, exports of buttons totaled less than 0.5 percent of total Philippine exports.

Table 24. - Pearl buttons: Exports from the Philippines, 1928-37

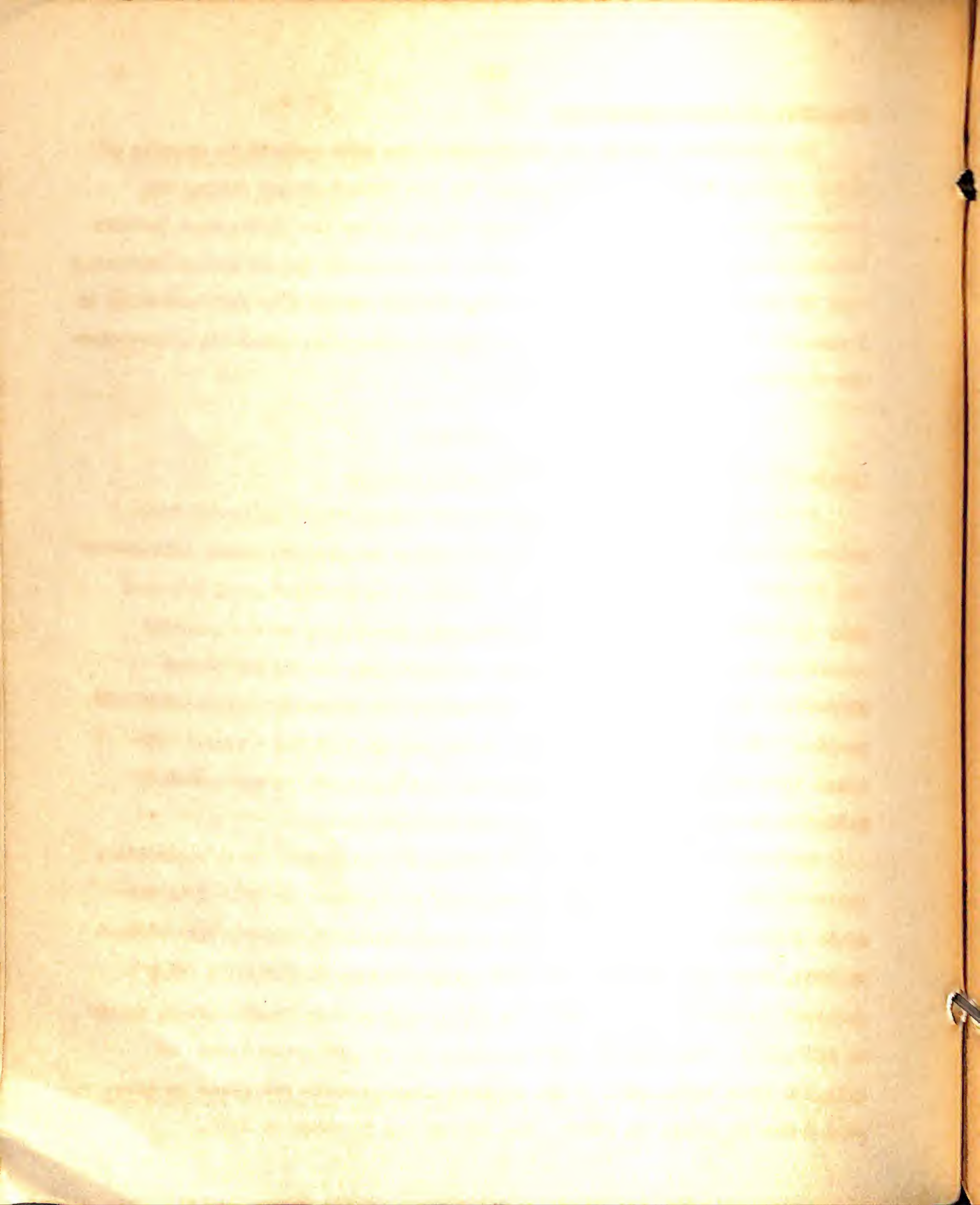
Year	Quantity	Value	Value per gross	Year	Quantity	Value	Value per gross
	Gross		Cents		Gross		Cents
1928	843,231	\$385,857	45.8	1933	836,237	\$270,753	32.4
1929	750,098	382,898	51.0	1934	713,886	242,838	34.0
1930	850,074	380,140	44.7	1935	694,161	237,397	34.2
1931	841,982	366,783	43.6	1936	680,829	218,516	32.1
1932	739,821	243,667	32.9	1937	776,024	274,510	35.4

Source: Annual Reports, Insular Collector of Customs.

Restrictions imposed by the Independence Act

No limitation or restriction is placed by the Independence Act upon the shipment of buttons to the United States during the first 5 years of the Commonwealth period but during the second 5 years, Philippine export taxes will be collected on shipments to the United States. When the Philippines becomes independent, the full United States duty will be assessed on pearl buttons entering the United States from the Philippines; based on the present United States duty of 1-3/4 cents per line per gross plus 25 percent ad valorem^{1/} and on current unit values of Philippine exports, the ad valorem equivalent would then approximate 100 percent.

^{1/} The term "line" refers to the line button measure of one-fortieth of 1 inch.



The range in wholesale selling prices in New York of competitive pearl buttons, whether imported or domestic, is very narrow. Consequently, when Philippine pearl buttons become subject to the export taxes provided for in the Independence Act, they will find it increasingly difficult to retain their market in the United States. The application of the full United States duty, if maintained at the present level, would probably be prohibitive of Philippine exports to the United States.

Character of recommendations

The Committee recommends that annually declining, duty-free quotas which should also be free of export taxes, be imposed upon imports of Philippine pearl buttons into the United States, commencing with 850,000 gross for the calendar year 1940, and that this amount be reduced by 5 percent for each succeeding calendar year until it shall equal 637,500 gross for the calendar year 1945. The Committee recommends further that, after the Philippines becomes independent, similar quotas be continued subject to an annual reduction of 42,500 gross beginning with the calendar year 1947. Any shipments made in excess of the quotas, either during the Commonwealth period or thereafter, should be subject to the full United States duty. Imports of duty-free pearl buttons from the Philippines would thus be reduced gradually until they were eliminated completely at the close of 1960. Such an arrangement would afford Philippine manufacturers an adequate period in which either to liquidate that portion of their business dependent upon the United States market or to develop new outlets.

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Character of recommendations

The Committee recommends that annually declining, duty-free quotas which should also be free of export taxes, be imposed upon imports of Philippine pearl buttons into the United States, commencing with 850,000 gross for the calendar year 1940, and that this amount be reduced by 5 percent for each succeeding calendar year until it shall equal 637,500 gross for the calendar year 1945. The Committee recommends further that, after the Philippines becomes independent, similar quotas be continued subject to an annual reduction of 42,500 gross beginning with the calendar year 1947. Any shipments made in excess of the quotas, either during the Commonwealth period or thereafter, should be subject to the full United States duty. Imports of duty-free pearl buttons from the Philippines would thus be reduced gradually until they were eliminated completely at the close of 1960. Such an arrangement would afford Philippine manufacturers an adequate period in which either to liquidate that portion of their business dependent upon the United States market or to develop new outlets.

5. UNITED STATES EXPORTS TO THE PHILIPPINES
CHARACTER OF GENERAL RECOMMENDATIONS

According to the terms of the Independence Act, United States products will be accorded unrestricted duty-free entry into the Philippine market until the Philippines becomes independent; thereafter, they will presumably become subject to the full Philippine tariff. The Committee feels that the sudden transition from a duty-free to a non-preferential position will not afford United States interests an adequate opportunity to make the required adjustments. The Committee believes, therefore, that United States products should be accorded in the Philippine market the same tariff preferences which have been proposed for Philippine products in the United States market. Specifically the Committee recommends that on and after July 4, 1946, the Philippine Government should levy and collect on all United States products imported into the Philippines (except those products for which special provisions have been made) 25 percent of the then existing Philippine duties. This rate should be increased by 5 percent on each succeeding January 1, until January 1, 1961, when the full Philippine duties should be collected and all preferences terminated.

Under this plan, United States products would have unrestricted duty-free entry into the Philippines until July 4, 1946, as now provided in the Independence Act, and would not become subject to full Philippine duties until January 1, 1961. United States manufacturers and exporters would thus be afforded a substantial period in which either to adjust their business in the Philippines to a position independent of preference or, should that prove impossible, to provide for its orderly liquidation.

On many products Philippine duties are relatively low, and are therefore not likely to be the cause of such appreciable increases in the prices of United States goods as to bring about a sharp decline in Philippine consumption of them. Foreign competition, however, may force American firms either to forego a substantial part of the price premium now obtained or to suffer a reduction in sales. Although most United States products sold in the Philippines are also sold in foreign markets without benefit of preferences, Philippine imports from foreign countries in a few instances have recently reduced the participation of United States products in that market. The Committee believes that special provisions should be made for such commodities in order that the plan it recommends for the elimination of all trade preferences should not operate in such a manner as to be more restrictive of American exports to the Philippines than of Philippine exports to the United States. The Committee also feels that special provision should be made for imports into the Philippines of American cigarettes after the Philippines become independent, inasmuch as the Philippine tariff rate on tobacco products are so high as practically to preclude the possibility of their importation. A discussion of these special recommendations is presented on subsequent pages.

COTTON TEXTILES

Philippines as an export market for United States cotton textiles

Prior to 1935, the Philippines was the leading export market for United States cotton textiles, and the United States was the principal supplier of these goods in the Philippines. Since then the Philippines has occupied second place as a market for United States cotton textiles and the United States has become the second supplier in the Philippine

market. The growth of United States trade with Cuba, and the increased competition of Japanese cotton fabrics in the Philippines, have combined to reduce the relative importance of the Philippines as an outlet for cotton goods from the United States.

United States exports of cotton textiles to the Philippines totaled 41,452,000 square yards valued at \$4,843,600 in 1936. In that year, shipments to the Philippines amounted to 20.7 percent of the quantity of cotton textiles exported by the United States to all countries. Shipments to the Philippines in 1936 declined appreciably, both absolutely and relatively, from exports in 1932, which totaled 116,665,000 square yards valued at \$8,438,000. (See table 25.) Cotton textiles from the United States, however, were specially favored in 1932 because of the boycott of Japanese goods by Chinese merchants operating in the Philippines. Although the trend of United States exports to the Philippines was a declining one during the period 1932-36, preliminary reports indicate that United States participation increased appreciably during 1937 and the early months of 1938. This change may be explained in part by the rise in prices of Japanese textiles and the inability of Japanese manufacturers to enter into forward contracts, and in part by the decline in prices of United States textiles.

Table 25.- Cotton textiles:^{1/} Quantities and values exported from the United States to all countries and to the Philippines, 1927-36

Year	Total exports		Exports to the Philippines		Ratio of quantity of exports of cotton textiles to the Philippines to total quantity of exports of cotton textiles to all countries
	Quantity	Value	Quantity	Value	
	Square yards:		Square yards:		Percent
1927	565,020,728	\$76,755,711	88,016,312	\$11,345,805	15.6
1928	546,847,456	72,298,554	93,775,874	12,198,883	17.1
1929	564,447,306	79,412,946	81,341,833	10,505,616	14.4
1930	416,285,047	51,384,739	48,571,701	5,640,796	11.7
1931	366,958,814	35,782,912	61,599,362	5,789,741	16.8
1932	375,446,543	27,356,836	116,665,261	8,437,834	31.1
1933	302,041,971	23,511,176	88,086,983	7,110,736	29.2
1934	226,305,977	24,656,063	47,875,516	5,257,782	21.2
1935	185,564,517	20,035,363	47,121,603	5,299,516	25.4
1936	200,500,610	21,873,894	41,451,900	4,843,595	20.7

^{1/} Includes cotton cloth, duck, and tire fabric.

Source: Compiled from official statistics of the United States Department of Commerce.

United States cotton textiles in Philippine market

In 1932, the United States supplied 72 percent of the total quantity of Philippine imports of cotton textiles; the ratio declined to 33 percent in 1935 and to 29 percent in 1937. In the latter year, Japan became the principal supplier of Philippine imports of these products. During the first quarter of 1938, however, arrivals of United States cotton textiles in the Philippines have exceeded, in both quantity and value, arrivals of similar products from Japan.

Factors governing imports into the Philippines

The Philippine tariff provides for specific duties based on weight and yarn counts on cotton textiles imported from foreign countries. To the extent that the duty is based on weight, it results in taxing low-grade goods more heavily than high-grade goods. The computed ad valorem equivalent of Philippine duties collected on imports of dutiable cotton textiles amounted to 30 percent in 1936.

In an effort to stabilize conditions in the Philippine cotton textile market, the Japanese Government agreed to limit for 2 years, beginning August 1, 1935, imports of Japanese cotton cloth into the Philippines. This agreement, commonly referred to as the "gentlemen's agreement", was renewed for a 1-year period ending August 1, 1938. As a result of the restriction, prices of Japanese textiles in the Philippine market have been increased, the effect of which has been to tax Philippine consumers for the direct benefit of Japanese producers and for the indirect benefit of American producers.

Character of recommendations

The Committee believes that it would be possible to capture for the Philippine Treasury the price premiums now being paid by Philippine consumers in consequence of the "gentlemen's agreement." The Committee, therefore, recommends that the Philippine tariff on cotton textiles be increased. It recommends the adoption of the schedules presented in Schedule I of the Appendix, which schedules, if made effective simultaneously with the termination of the "gentlemen's agreement", should not increase materially the prices paid by Philippine consumers. 1/

1/ The increases in duty recommended by the Committee are lower for cloths of low yarn count than for cloths of high yarn count, the former being less costly than the latter and hence more widely consumed by persons of small income.

CIGARETTES

The Philippines as an export market for American cigarettes

In recent years the Philippines has ranked first as an export market for American cigarettes. Since 1928 the percentage of total exports of cigarettes from the United States shipped to the Philippines has increased steadily until both in 1935 and 1936 it amounted to 53 percent. The quantity exported has risen from 1,081,000,000 in 1933 to 3,025,000,000 in 1937. In the latter year, exports to the Philippines were valued at \$4,695,000 (see table 26). Nearly 100 percent of the cigarettes imported into the Philippines regularly enter from the United States; in 1936 and 1937, imports supplied about one-half of total Philippine consumption.

Table 26.- Cigarettes: Quantities and values exported from the United States to all countries and to the Philippines, 1927-36

Year	Total exports		Exports to the Philippines ^{1/}		:Ratio of quantity :of exports of ciga- :rettes to the Phil- :ippines to total :quantity of exports :of cigarettes to : all countries
	Quantity	Value	Quantity	Value	
	Thousands		Thousands		Percent
1927	7,093,039	\$13,836,831	532,402	\$1,128,513	7.5
1928	11,706,110	22,059,149	808,630	1,772,382	6.9
1929	8,455,851	16,706,421	1,122,321	2,291,932	13.3
1930	4,927,223	10,186,970	1,129,041	2,056,837	22.9
1931	2,968,499	6,751,099	1,075,384	1,861,780	36.2
1932	2,416,739	5,328,629	971,401	1,671,759	40.2
1933	2,495,376	4,894,902	1,080,662	1,760,406	43.3
1934	3,300,838	6,144,090	1,692,581	2,555,850	51.3
1935	3,900,313	7,261,950	2,080,168	3,086,271	53.3
1936	4,628,750	8,658,395	2,467,206	3,651,557	53.3

^{1/} Exports to the Philippines in 1937 amounted to 3,024,533,000 valued at \$4,695,646.

Source: Compiled from official statistics of the United States Department of Commerce.

Factors governing imports into the Philippines

The Philippine tariff imposes a duty of \$4.50 per pound plus 25 percent ad valorem on cigarettes imported from foreign countries. Based on the average value per pound of shipments of United States cigarettes to the Philippines in 1937, the ad valorem equivalent of this duty, had it been assessed against United States shipments, would have approximated 750 percent. It appears certain that American cigarettes, if subjected to such a duty, would not be able to retain any appreciable market in the Philippines.

Character of recommendations

The Committee recommends that, for the period July 4, 1946, through December 31, 1946, a duty-free quota of 1,125,000,000 cigarettes be imposed upon imports of American cigarettes into the Philippines, and that for the calendar year 1947, a duty-free quota of 2,100,000,000 cigarettes (70 percent of 3,000,000,000 cigarettes) be similarly imposed, which quota should be reduced by 150,000,000 cigarettes (5 percent of 3,000,000,000 cigarettes) for each succeeding calendar year until 1961. The Committee recommends further that any shipments in excess of the quota be subject to whatever Philippine duty may be in force at the time.

As the basis for the quota the Committee selected the shipments made in 1937, which were the largest on record, amounting to approximately 3,000,000,000 cigarettes. The recommendations of the Committee would accord American cigarettes the same opportunity in the Philippine market as it recommends be accorded those Philippine products subject to declining duty-free quotas in the United States market. According to the

recommendations, all declining duty-free quotas would be reduced at the date of independence, by 25 percent of their original amount, and thereafter would be reduced by an additional 5 percent for each calendar year, until 1961. If adopted, this plan would afford United States cigarette manufacturers an adequate period in which to adjust their business in the Philippines after that country becomes independent. Without an arrangement of this type, imports of American cigarettes into the Philippines would cease on July 4, 1946, inasmuch as they would then become subject to the Philippine duty.

EVAPORATED MILK

The Philippines as an export market for United States evaporated milk

In recent years, the Philippines has been the leading export market for United States evaporated milk. Since 1934, however, exports have declined. In that year, they amounted to 19,906,000 pounds, valued at \$1,236,000, and constituted 52 percent of total United States exports of that product; in 1936, they amounted to 10,963,000 pounds, valued at \$794,000, and constituted 46.5 percent (see table 27). Preliminary reports indicate that the decline continued in 1937. The reduction in the volume of United States exports is especially significant because, during this period, Philippine consumption of evaporated milk increased.

Table 27.- Evaporated milk (unsweetened): Quantities and values exported from the United States to all countries and to the Philippines, 1927-36

Year	Total exports		Exports to the Philippines		Ratio of quantity of exports of evaporated milk to the Philippines to total quantity of exports of evaporated milk to all countries
	Quantity	Value	Quantity	Value	
<u>Pounds</u>		<u>Pounds</u>		<u>Percent</u>	
1927	68,047,141	\$7,182,446	13,230,906	\$1,341,214	19.4
1928	76,788,833	7,904,541	15,649,075	1,575,817	20.4
1929	68,942,613	6,844,208	17,157,300	1,727,689	24.9
1930	60,810,993	5,612,272	18,010,910	1,651,980	29.6
1931	55,761,388	4,609,251	18,036,359	1,479,287	32.3
1932	39,305,309	2,525,991	17,692,601	1,066,072	45.0
1933	32,365,212	1,939,959	18,663,376	1,101,667	57.7
1934	37,963,415	2,385,351	19,905,683	1,235,892	52.4
1935	32,227,125	2,139,283	15,374,961	1,023,118	47.7
1936	23,560,959	1,743,757	10,962,919	794,279	46.5

Statistics of the United States Department

Source: Compiled from official statistics of the United States Department of Commerce.

United States evaporated milk in Philippine market

In 1930 the United States supplied 99.8 percent of the total quantity of Philippine imports of evaporated milk; this ratio declined to 84.5 percent in 1935, to 50.5 percent in 1936, and to 38 percent in 1937. The Netherlands has become the other principal supplier. Most of the shipments from that country are made by large firms which have plants located in many countries, including the United States. The selection of the particular plants to supply the Philippine market at any given time is dependent upon the degree of profitability which such a selection appears to afford.

Factors governing imports into the Philippines

The Philippine tariff imposes a duty of 10 percent upon imports of evaporated milk from foreign countries. The computed ad valorem duty on dairy products entering the Philippines from foreign countries was 8.2 percent in 1936. The fact that the effective rate is lower than the statutory rate is due to the Philippine Parity Act which, for duty assessment purposes, undervalues the Netherlands' currency in respect of its current exchange value.

Character of recommendations

The Committee recommends that the Philippine tariff on evaporated milk be raised from 10 percent ad valorem to 25 percent ad valorem. The Committee believes that such a change would operate to increase American participation in the Philippine market, and that such a transfer in the source of supply would not result in raising prices by the full amount of the increase in duty, inasmuch as competition between American firms would operate to prevent such an eventuality.

CANNED FISH PRODUCTS

The Philippines as an export market for United States canned fish products

The Philippines ranked first as an export market for United States canned sardines in 1936. Exports to the Philippines reached a peak in 1929, when they amounted to 19,339,000 pounds valued at \$1,469,000. In 1936, exports to that market totaled 8,903,500 pounds valued at \$410,000, and amounted to 20.9 percent of the total quantity exported from the United States in that year. Preliminary statistics indicate that exports to the Philippines declined further in 1937, despite an appreciable increase in total Philippine imports of this product (see table 28).

The Philippines ranked second as an export market for United States canned salmon in 1936, the United Kingdom being the principal market. During the decade 1927-36, shipments to the Philippines have fluctuated widely, ranging from 4,742,000 pounds valued at \$499,500 in 1927, to 258,000 pounds valued at \$23,000 in 1928. Shipments in 1936 were 1,429,000 pounds valued at \$96,000, and amounted to 3.7 percent of the total quantity exported from the United States in that year. Preliminary statistics indicate that exports to the Philippines in 1937 increased somewhat as compared with exports in 1936 (see table 29).

The Philippines was the leading market for United States exports of canned mackerel from 1930 through 1935. In 1936, they ranked second. Exports reached a peak of 2,170,000 pounds valued at \$92,000 in 1934, but declined to 160,000 pounds valued at \$7,000 in 1936. Preliminary statistics indicate a further decline in 1937 (see table 30).

Table 28.- Canned sardines: Quantities and values exported from the United States to all countries and to the Philippines, 1927-36

Year	Total exports		Exports to the Philippines		:Ratio of quantity of ex-ports of canned sardines to the Philippines to total quantity of such exports to all countries
	Quantity	Value	Quantity	Value	
	Pounds		Pounds		Percent
1927	79,439,503	\$6,817,662	12,688,711	\$1,165,552	16.0
1928	80,253,474	6,522,711	11,052,165	888,114	13.8
1929	123,920,062	9,418,511	19,338,692	1,469,070	15.6
1930	103,226,315	7,138,594	16,068,821	1,066,710	15.6
1931	53,246,898	3,445,770	8,199,615	510,853	15.4
1932	26,644,525	1,542,399	7,121,404	366,797	26.7
1933	25,641,265	1,386,680	7,651,141	370,377	29.8
1934	33,145,553	1,937,431	9,315,475	487,137	28.1
1935	45,454,334	2,724,210	10,980,738	521,850	24.2
1936	42,688,741	2,530,867	8,903,524	410,376	20.9

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 29. - Canned salmon: Quantities and values exported from the United States to all countries and to the Philippines, 1927-36

Year	Total exports		Exports to the Philippines		:Ratio of quantity of ex-ports of canned salmon to the Philippines to total quantity of such exports to all countries
	Quantity	Value	Quantity	Value	
	Pounds		Pounds		Percent
1927	38,247,932	\$6,028,960	4,742,208	\$499,526	12.4
1928	40,952,705	7,661,733	253,357	33,046	.6
1929	40,967,378	7,405,941	550,242	71,772	1.3
1930	27,287,729	5,342,080	840,158	92,346	3.1
1931	24,221,633	4,039,993	1,882,796	139,759	7.8
1932	32,610,017	3,584,886	803,808	52,743	2.5
1933	26,539,379	3,289,924	1,031,601	68,683	4.1
1934	49,065,899	6,676,178	1,575,464	130,476	3.2
1935	45,312,277	6,917,920	1,195,317	87,952	2.6
1936	38,892,896	6,404,358	1,429,069	96,053	3.7

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 30.- Canned mackerel: Quantities and values exported from the United States to all countries and to the Philippines, 1930-36 1/

Year	Total exports		Exports to the Philippines		Ratio of quantity of exports of canned mackerel to the Philippines to total quantity of such exports to all countries
	Quantity	Value	Quantity	Value	
	Pounds		Pounds		Percent
1930	2,595,845	\$190,759	1,446,568	\$99,889	55.7
1931	1,550,161	111,218	789,799	61,652	50.9
1932	1,409,168	79,391	631,590	34,269	44.8
1933	1,968,982	93,071	1,086,225	50,621	55.2
1934	4,703,566	218,894	2,170,325	92,245	46.1
1935	2,258,067	113,439	942,890	43,604	41.8
1936	803,754	45,648	160,052	7,025	19.9

1/ Canned mackerel was not separately classified prior to 1930.

Source: Compiled from official statistics of the U.S. Department of Commerce.

United States canned fish products in the Philippine market

The proportion of total Philippine imports of canned sardines supplied by the United States declined from 97 percent in 1929, to 89 percent in 1932, to 45 percent in 1935, and to 18 percent in 1937. Japan is now the principal supplier of canned sardines in the Philippine market. The United States supplied 87 percent of total Philippine imports of canned salmon in 1929, 56 percent in 1932, 74 percent in 1935, and 56 percent in 1937. Canada and Japan have been the other principal suppliers of this product in the Philippine market. Imports of canned mackerel from the United States accounted for 99 percent of the total of such imports into the Philippines in 1932, 61 percent in 1935, and only 2 percent in 1937. Japan is now the principal supplier.

Factors governing imports into the Philippines

Fish, in cans, glass, or jars, when imported from foreign countries, is subject to Philippine duties which range from 15 to 25 percent in accordance with specific classifications in the tariff schedule. Canned sardines, salmon, and mackerel, of foreign origin are dutiable at 15 percent. The computed ad valorem equivalent of Philippine duties on all dutiable fish products in 1936 was 24.2 percent. The major portion of dutiable Philippine imports of fish products are entered at 15 percent ad valorem. The high ad valorem equivalent is the result of the operation of the Parity Law which, for purposes of duty assessment, overvalues Japanese currency as compared with current exchange rates. Japanese products subject to ad valorem duties, therefore, pay effective duties which are approximately 70 percent in excess of what they would be if invoice values in yen were computed at current exchange rates.

Character of recommendations

The Committee recommends that Philippine duties on "fish, in cans, glass, or jars", ^{1/} be increased to 25 percent ad valorem for all classifications.

^{1/} Paragraph 212, Philippine Tariff Act of 1909, as amended.

C O N F I D E N T I A L

REPORT OF
THE JOINT PREPARATORY COMMITTEE
ON
PHILIPPINE AFFAIRS

PART III

FINANCE

PART III - FINANCE

1. Introduction

In considering the financial problems of the Philippines, the Committee has been guided not only by the basic postulates set forth in the Independence Act and to be inferred from the major economic and political objectives contemplated by that Act, but also by certain other principles implicit in the Committee's recommendations as to the economic adjustments which the Philippines must undertake in order to prepare for the assumption and maintenance of an independent status. The general objective has been that the independent government to be inaugurated on July 4, 1946, may occupy a strong and sound financial position.

The treatment of this subject is presented in four sections, as follows: (1) Revenues and Expenditures; (2) Bonded Indebtedness; (3) Currency; and (4) Banking. The Committee's specific recommendations with respect to finance will be found in Part VII of this report.

2. Revenues and Expenditures

In its treatment of the revenues and expenditures of the Philippine Government, the Committee has considered only the revenues and expenditures of the national Philippine Government; it has made no allowance for the annual revenues and expenditures of the provinces, municipalities and chartered cities of the Philippines, about one-third of whose revenue, in the aggregate, is derived from grants by the national Government. The reports of the Auditors of the Philippines do not contain the information which would enable the Committee to prepare comparable data showing the amounts contributed by the national Government for the support of these political subdivisions.

Period prior to 1937

During the decade from 1927 to 1936, the annual net revenues available for meeting the ordinary expenditures of the Philippine Government exceeded expenditures chargeable against ordinary revenues, except in the four years 1930 to 1933, inclusive; during the same ten-year period, the total annual income exceeded total expenditures except in the years 1927 and 1930 to 1932, inclusive; and the deficits incurred, which were relatively small, were met by drawing on the surplus accumulated in previous years. At no time during this decade was the Philippine Government compelled to borrow to meet budgetary deficits.

The following table is a summary statement of revenues and expenditures for the years 1927 to 1936, inclusive:^{1/}

Revenues and Expenditures of the Philippine National Government

1927-1936^{2/}

(In millions of dollars)

Fiscal and Calendar Year	:Net Revenues Available for Meeting Ordinary Expenditures	:Net Expenditures Chargeable Against Ordinary Revenues	:Excess (+) or Deficit (-) of Ordinary Revenues over Ordinary Expenditures	:Total Receipts and Transfers	:Total Expenditures	:Excess (+) or Deficit (-) of Total Receipts over Expenditures
1927	: 33.7	: 31.9	: + 1.8	: 41.7	: 42.1	: - .4
1928	: 36.4	: 32.6	: + 3.8	: 47.9	: 45.1	: + 2.8
1929	: 38.9	: 34.7	: + 4.2	: 47.0	: 41.8	: + 5.2
1930	: 35.3	: 39.8	: - 4.5	: 47.5	: 50.6	: - 3.1
1931	: 34.5	: 41.4	: - 6.9	: 41.3	: 45.7	: - 4.4
1932	: 33.3	: 36.4	: - 3.1	: 37.3	: 39.8	: - 2.5
1933	: 30.4	: 31.7	: - 1.3	: 35.0	: 34.7	: + .3
1934	: 33.4	: 32.5	: + .9	: 39.3	: 35.3	: + 4.0
1935	: 35.2	: 35.1	: + .1	: 41.4	: 37.9	: + 3.5
1936	: 42.2	: 37.5	: + 4.7	: 51.7	: 46.2	: + 5.5
Total	: 353.3	: 353.6	: - .3	: 430.1	: 419.2	: + 10.9
Average	: 35.33	: 35.36	: - .03	: 43.01	: 41.92	: + 1.09

Based on Reports of the Auditor General of the Philippine Islands.

1/ Detailed statistics of Government revenues and expenditures for the selected years 1927, 1930, 1933 and 1936, will be found in Appendix IV. The year 1936 was the last year for which detailed figures were available at the time of the preparation of this report--May 1938.

2/ As indicated in the introductory paragraph to this section, the annual revenues and expenditures of the provinces, municipalities and chartered cities of the Philippines are not included in this table. The revenue figures for 1936, however, which seems to have been about an average year, are as follows: gross revenue, \$34,926,244; contributed by national Government, \$9,005,660; net revenue, \$25,920,584. A complete study of Philippine revenues and expenditures would have to include consideration of the fact that, in addition to an annual contribution of approximately \$43,000,000 to the national Government, the taxpayers in the Philippines are contributing approximately \$25,000,000 annually for the maintenance of the governments of the provinces, municipalities and chartered cities. These two sums approximate \$68,000,000.

Current period

The present condition of Philippine governmental finances is indicated in the following table of the consolidated general fund for the years 1936, 1937, and 1938:

Comparative Financial Statement of the Consolidated General Fund of the Philippine Government 1936-1938 (in millions of dollars)

	1936	1937	1938
	Actual	Estimated	Estimated
<u>INCOME</u>			
REGULAR:			
Revenue from taxation	29.0	35.2	31.6
Other	13.4	8.7	8.6
Total income	42.4	43.9	40.2
<u>EXPENDITURES</u>			
ORDINARY:			
General	24.2	28.5	33.2
Fixed	4.9	4.9	4.9
Total	29.1	33.4	38.1
EXCESS OF TOTAL ESTIMATED REGULAR INCOME OVER TOTAL ESTIMATED ORDINARY EXPENDITURES	13.3	10.5	2.1
Add--Accumulated Surplus, January 1	19.7	23.9	24.8
Total	33.0	34.4	26.9
EXTRAORDINARY EXPENDITURES	9.1	23.0	1.3
<u>SURPLUS, DECEMBER 31</u>			
Surplus after deducting extraordinary expenditures	23.9	11.4	25.6
Add--Amount transferred from proceeds of coconut oil processing tax	--	13.4	.6
TOTAL SURPLUS GENERAL FUND PROPER	23.9	24.8	26.2
Less--Allocations of surplus	22.1	13.0	14.1
UNALLOCATED SURPLUS GENERAL FUND PROPER	1.8	11.8	12.1
Add--Unallocated surplus coconut oil processing tax proceeds	--	44.7	44.1
TOTAL UNENCUMBERED SURPLUS OF CONSOLIDATED GENERAL FUND	1.8	56.5	56.2

Based on the Budget of the Commonwealth of the Philippines for 1938.

The foregoing summary does not include the receipts and expenditures of the special and bond funds, and hence the totals for 1936 do not correspond exactly with the amounts of total income and expenditures for that year as shown in the table; but the statement of the consolidated general fund presents a reasonably complete picture of governmental finances, since it reflects more than 80% of the government's financial operations.

The estimated unallocated surplus at the end of 1938 exceeds appreciably the regular annual income of the Philippine Government; and, unless extraordinary expenditures should be far in excess of present budgetary estimates, the unallocated surplus at the end of 1938 should be even greater, inasmuch as the foregoing statement does not include any allowance for receipts in 1938 from the proceeds of the excise taxes on coconut oil and sugar, which may be expected to approximate \$25,000,900.^{1/} Regardless of additional revenues from these sources, however, it is apparent that the Philippine Government is at present in an exceptionally strong financial position.

Remainder of the Commonwealth period

The Committee believes that the gradual reduction in trade preferences recommended in this report would not bring about such a decrease in United States-Philippine trade as to cause

^{1/} Coconut oil--Act of May 10, 1934 (48 Stat. 763) as amended by the Act of June 22, 1936 (49 Stat. 1742); and sugar--Act of September 1, 1937 (50 Stat. 903).

a serious reduction of the ordinary revenues during the Commonwealth period. Moreover, as long as the present United States excise taxes on coconut oil and sugar remain in effect, and the proceeds of such taxes collected on products of Philippine origin sold in the United States continue to be remitted to the Philippine Government, it will receive large extraordinary revenues. The present annual yield to the Philippine Government of the excise tax on coconut oil has averaged about \$17,000,000; and the estimated annual yield of the excise tax on sugar is approximately \$9,750,000.

In addition to the extraordinary income from excise taxes, the export taxes provided for in the Independence Act, after allowing for the changes recommended by the Committee, should yield for debt retirement purposes a total of approximately \$35,326,000 during the period 1941-1946 in which they would be in effect.^{1/}

Although expenditures have not yet increased in proportion to the total revenues received by the Philippine Government, there may be a tendency in that direction during the remainder of the Commonwealth period. Expenditures will increase materially as the economic adjustment program is carried out and as the Philippine Government prepares to assume in 1946 the full obligation of national defense.^{2/}

^{1/} The Committee's estimate of the proceeds of the export taxes, distributed by years, is as follows: 1941--\$2,019,000; 1942--\$4,037,000; 1943--\$6,056,000; 1944--\$8,074,000; 1945--\$10,093,000; and 1946 (January to July)--\$5,047,000.

^{2/} It may be noted that expenditures for the Philippine Army (including the Constabulary) amounted to \$5,344,000 in 1936, and that the estimated expenditures for 1938 amount to \$8,277,000.

Period after independence

After independence, the Philippine Government will no longer receive income from United States excise taxes levied on the importation or on the processing of Philippine products sold in the United States, or from the export taxes levied by the Commonwealth Government as provided by the Independence Act. The Philippine Government, however, will have a new source of revenue in the form of tariff duties on imports from the United States, and it may possibly have increased revenues derived from imports from other countries. Although the amount of revenue that may be derived from such sources cannot be estimated satisfactorily, it will doubtless be very much less than the revenue derived from the excise and export taxes.

While revenues will probably decline in the years immediately following independence, there is little reason to expect that expenditures can be correspondingly reduced. The problem of economic adjustment will become more acute as trade preferences decline. The Philippine Government, moreover, must assume all of the expenses of national defense, and also must incur certain expenditures for the maintenance of diplomatic, consular and commercial services. But the Philippine Government would, if the recommendations of the Committee are followed, be practically free of debt, so that the revenues previously devoted to debt service would be released for other purposes. It is believed, however, that the Philippine Government will encounter

its most difficult financial problems during the early years of the independence period, especially if adequate preparation will not have been made during the Commonwealth period.

Special need for extraordinary revenues

The Philippine Government will probably need to devote virtually all of its revenues from ordinary sources to meet the cost of carrying on ordinary government functions during both the Commonwealth period and the years following independence. Any increase in revenues from present ordinary sources would no doubt be absorbed by ordinary expenditures for social services, such as education and public health, or for national defense. The Committee considers that a distinction between the ordinary budget and the budget for economic adjustment should be scrupulously maintained. None of the remitted proceeds of the United States taxes on sugar and coconut oil should be used to meet all or any portion of such charges as have normally been carried in the regular budget.

The Committee believes that the continuance of the extraordinary revenues from United States excise taxes on Philippine products during the Commonwealth period will be necessary if the program of economic adjustment is to be financed without serious budgetary difficulties and hardships to the Philippine people. In view of the fact that the Independence Act accorded Philippine products during this period free access to

the American market (except for the imposition of certain quota restrictions and the requirement of export taxes during the latter part of that period), and considering that it has been the policy of the United States Government since the Act of March 8, 1902,^{1/} to remit to the Philippine Government the proceeds of United States taxes levied on products of Philippine origin, the Committee assumes that such policy will be continued during the Commonwealth period, and so recommends.

Desirable restrictions on use of extraordinary revenue

However desirable additional social services and institutions may be, the Philippine Government should not use extraordinary and non-recurring revenues for the expansion of ordinary services which could not be maintained with ordinary revenues. The Philippine Government, as would any government under similar circumstances, will find it extremely difficult to avoid this danger, inasmuch as the need for the expansion of social services is great, and since there is expected to be an appreciable time-lag between the period of the receipt of extraordinary revenues and the period when the decrease of trade preferences will have come to be felt seriously. The Committee believes, therefore, that it is necessary that the Philippine Government reserve the funds derived from excise taxes on sugar

^{1/} 32 Stat. 54.

and coconut products of Philippine origin primarily for the purposes of economic adjustment, as set forth in Part IV of this report, and for other vital needs of the Philippines. Such use has already been contemplated with respect to sugar in Section 503 of the Sugar Act of September 1, 1937,^{1/} and, with respect to coconut oil, in a press statement issued on behalf of the President of the Philippines.^{2/}

The Philippine Government had, as of January 1, 1938, a large unappropriated surplus (approximately \$45,000,000) in the coconut oil excise tax fund, and revenues from extraordinary sources are expected to accrue in large amounts early in the period of adjustment. As pointed out, however, in Part IV of this report, considerable sums will be required for economic adjustment and some expenditures for that purpose will need to be met after independence. Long-range planning is, therefore, clearly necessary in order to provide funds to finance not only that part of the economic adjustment program which will take

^{1/} 50 Stat. 903. "There is authorized to be appropriated an amount equal to the amount of the taxes collected or accrued under title IV on sugars produced from sugarcane grown in the Commonwealth of the Philippine Islands which are manufactured in or brought into the United States on or prior to June 30, 1941, minus the costs of collecting such taxes and the estimates of amounts of refunds required to be made with respect to such taxes, for transfer to the Government of the Commonwealth of the Philippines for the purpose of financing a program of economic adjustment in the Philippines, the transfer to be made under such terms and conditions as the President of the United States may prescribe: Provided, That no part of the appropriations herein authorized shall be paid directly or indirectly for the production or processing of sugarcane in the Philippine Islands."

^{2/} Department of State press release of June 23, 1937.

place during the Commonwealth period but also that part which can not be completed until after the attainment of independence.

Safeguards against hasty and uncoordinated expenditures should be taken, and every effort should be made to prevent distortion of the Philippine economic system by such rapid expenditures as would lead to a marked rise in prices and wages for a few years, only to be followed by a severe deflation when expenditures had been greatly reduced. In view of the fact that the economic adjustment program will require large extraordinary expenditures, there exists the possibility of an inflation of objectionable proportions.

Future revenues and expenditures

In anticipation of the future financial requirements, not only of the Commonwealth Government but also of the independent government to be inaugurated on July 4, 1946, there is need for a comprehensive survey of the existing Philippine tax system. This survey should be undertaken with a view to providing additional revenues to meet the increases in ordinary expenditures that may be anticipated as a result of independence and to finance the economic adjustment program. The Committee does not undertake to specify those sources of revenue which should be studied; but, in planning the revision of the existing tariff, the discontinuance of old taxes, and the adoption of new taxes, careful consideration should be given to an equitable distribution of the

tax burden as well as to the fiscal and economic effects which the proposed changes would entail.¹/

¹/ A further discussion of certain phases of this question is given in Part IV of this report.

3. Bonded Indebtedness

Present public debt of the Philippines ^{1/}

On December 31, 1936, the outstanding public debt of the Philippine Government and its political subdivisions totalled \$76,968,000; and sinking funds maintained against this debt amounted to \$31,388,000, leaving a net indebtedness of \$45,580,000. ^{2/} The sinking funds consist almost entirely of bonds issued by the Philippine Government. Nearly all of the public debt is payable in dollars, and about 80% of the bonds outstanding in the hands of the public are held by American investors.

The public debt of the Philippines is comparatively small. Annual interest and sinking fund charges amount to approximately \$5,000,000 and require the expenditure of only 8% of the ordinary revenues of the Philippine Government and its political subdivisions.

Maturity of the public debt of the Philippines ^{3/}

It is calculated that on July 4, 1946, the public debt of the Philippine Government and its political subdivisions, as of

1/ Details in regard to the outstanding public debt will be found in Appendix V. The debt as of December 31, 1936, has been used here and hereinafter because 1936 was the last complete year for which the Committee was able to obtain figures.

2/ These figures do not include the indebtedness of the Manila Railroad Company.

3/ Details in regard to the outstanding public debt, together with estimated sinking funds, as of July 4, 1946, will be found in Appendix VI and the total outstanding indebtedness and estimated sinking funds, at the close of each year from 1936 to 1966, are to be found in Appendix VII.

December 31, 1936, will be \$62,593,000, and, according to estimates prepared by the Philippine Government, sinking funds, exclusive of export tax proceeds, will at that time amount to \$41,313,000, leaving a net indebtedness of \$21,280,000.^{1/} The latest maturity date of any bond outstanding on December 31, 1936, is May 16, 1966.

Classification of the Philippine debt

In Section 2 (b) (3) and (5) of the Independence Act, the Congress distinguished between those debts and liabilities of the Philippine Government and its political subdivisions which were covered by bonds issued under authority of Acts of Congress and those debts and liabilities not incurred under such authority.^{2/} This distinction placed in one category all debts and liabilities incurred by the Philippine Government and its political subdivisions, which are covered by

1/ This does not include the indebtedness of the Manila Railroad Company hereinafter referred to, nor the indebtedness incurred subsequently to December 31, 1936.

2/ Section 2 (b) (3) of the Independence Act provides: "That the debts and liabilities of the Philippine Islands, its Provinces, cities, municipalities, and instrumentalities, which shall be valid and subsisting at the time of the final and complete withdrawal of the sovereignty of the United States, shall be assumed by the free and independent government of the Philippine Islands; and that where bonds have been issued under authority of an Act of Congress of the United States by the Philippine Islands, or any Province, city, or municipality therein, the Philippine government will make adequate provision for the necessary funds for the payment of interest and principal, and such obligations shall be a first lien on the taxes collected in the Philippine Islands."

Section 2 (b) (5) of the Independence Act provides: "That by way of further assurance the government of the Philippine Islands will embody the foregoing provisions ... in a treaty with the United States."

bonds issued under authority of Acts of Congress; and in another category all other debts and liabilities of the Philippine Government and its political subdivisions, as well as all debts and liabilities of its instrumentalities. With regard to obligations in the first category, the Congress provided (a) that the independent government shall assume that portion of this indebtedness outstanding on July 4, 1946; (b) that the Philippine Government shall make adequate provision for payment of interest and principal thereon; (c) that such indebtedness shall constitute a first lien on the taxes collected in the Philippines; and (d) that these provisions shall be embodied in a treaty between the United States and the Philippines. With regard to obligations in the second category, the Congress, in Section 2 (b) (3) and (5), merely provided that the independent government shall assume these obligations and that a provision to that effect shall be embodied in the said treaty.

Another differentiation between categories of Philippine indebtedness was established in Section 9 of the Independence Act, wherein it is specifically provided that there was no obligation on the part of the United States to meet interest and principal payments of bonds or other obligations of the "government of the Philippine Islands or of the Provincial and municipal governments thereof hereafter issued", i.e.,

after the effective date of the Act, May 1, 1934.^{1/} This provision might be construed to infer that the Congress recognized some obligation on the part of the United States to meet the interest and principal of the bonds of the Philippines and its political subdivisions incurred prior to May 1, 1934, under authority of Acts of Congress.

The total of Philippine Government indebtedness included in the second category mentioned above cannot be determined definitively at this time because there is a question whether the Manila Railroad Company is an "instrumentality" of the Philippine Government within the meaning of the Independence Act--a question which is not within the competence of the Committee. This railroad was originally a private company, but, prior to May 1, 1934, the entire capital stock of the railroad was acquired by the Philippine Government. The outstanding portion of the Manila Railroad bonded debt which matures prior to July 4, 1946, will be retired in 1939. The remaining portion which matures subsequently to July 4, 1946, consists of an issue of \$13,236,000 of Refunding Mortgage 5% Gold Bonds due July 1, 1956, and an issue of \$1,070,000 of First Mortgage 4% Gold Bonds, due May 1, 1959, the interest on which is guaranteed by the Philippine Government. The

^{1/} Section 9 of the Independence Act provides: "There shall be no obligation on the part of the United States to meet the interest or principal of bonds and other obligations of the Government of the Philippine Islands or of the Provincial and municipal governments thereof, hereafter issued during the continuance of United States sovereignty in the Philippine Islands: Provided, That such bonds and obligations hereafter issued shall not be exempt from taxation in the United States or by authority of the United States."

first issue may be redeemed on any interest date, as a whole only, at par plus 10% plus accrued interest. There are no sinking fund provisions for this issue. The estimated sinking fund for the second issue, as of July 4, 1946, is \$343,380.

Debt as of December 31, 1936^{1/}

The outstanding Philippine public debt on December 31, 1936, classified with reference to the distinction made in Section 9 of the Independence Act, was as follows:^{2/}

Indebtedness	Gross	Sinking Funds	Net
General			
Incurred prior to May 1, 1934:	\$ 75,682,350	\$ 31,374,136	\$ 44,308,214
Incurred subsequently to May 1, 1934	1,286,150	14,339	1,271,811
Total	\$ 76,968,500	31,388,475	45,580,025

Debt as of July 4, 1946

It has been estimated that the status of the Philippine public debt set forth in the foregoing table will on July 4, 1946, be as follows:^{3/}

- 1/ This does not include Manila Railroad Company.
- 2/ For details in regard to the outstanding debt on December 31, 1936, see Appendix V.
- 3/ This estimate was based on figures supplied by the Office of the Auditor General of the Philippines given in Appendices VI and VII.

Indebtedness	Gross	Sinking Funds	Net
General			
Incurred prior to May 1, 1934	\$ 61,057,350	\$ 40,959,552	\$ 20,097,798
Incurred subsequently to May 1, 1934	1,536,150	353,551	1,182,599
Total	\$ 62,593,500	\$ 41,313,103	\$ 21,280,397

Liquidation of Philippine debt

In addition to the sinking fund requirements provided by law for each specific issue of Philippine bonds, Section 6 (e) (5) of the Independence Act provides a further source of funds for debt liquidation by reserving for that purpose the proceeds of the export taxes.^{1/} Although this provision makes no distinction in the distribution of these proceeds among the various classes of the debt mentioned above, it could be reasonably assumed that preference in this respect should be given to Philippine bonded indebtedness incurred prior to May 1, 1934, under authority of Acts of Congress. The Committee

^{1/} The relevant paragraph of Section 6 (e) provides: "The government of the Commonwealth of the Philippine Islands shall place all funds received from such export taxes in a sinking fund, and such funds shall, in addition to other moneys available for that purpose, be applied solely to the payment of the principal and interest on the bonded indebtedness of the Philippine Islands, its Provinces, municipalities, and instrumentalities, until such indebtedness has been fully discharged."

believes that this is desirable from the standpoint of the interests both of the United States and of the Philippines.

From the standpoint of the United States, such action would assure the liquidation of that portion of the Philippine bonded indebtedness which might be inferred to carry some obligation on the part of the United States. Insofar as such an arrangement would reduce the total public debt, it would also be advantageous from the standpoint of the Philippines. It would permit the new government to begin its existence in a strong financial position, practically free of debt, and it would enable that government to use the portion of the revenues previously devoted to debt service to meet the additional expenditures that must be incurred as a result of independence. Moreover, the early retirement of this debt would result in considerable savings, since the Commonwealth Government could not expect to earn on its sinking funds an interest return as high as the interest rate it is paying on its bonded indebtedness.

Character of recommendations for debt liquidation

The Philippine Government should continue to set aside from its General Fund the interest and sinking fund charges now required by law in respect of that portion of the outstanding bonded indebtedness of the Philippines, its provinces, cities, and municipalities, incurred prior to May 1, 1934, under authority of Acts of Congress, as is already provided

in Section 2 (b) (3) of the Independence Act. In addition, in order to create a supplementary sinking fund for the liquidation of this portion of the public debt, the proceeds of the export taxes required by Section 6 (e) of the Independence Act should be deposited in a special account in the Treasury of the United States, to bear interest in accordance with the provisions of the Act of Congress approved June 11, 1934:^{1/} Provided, That in accordance with the procedure now applicable to the handling of sinking funds of the Philippine Government in the United States, this supplementary sinking fund may be used to purchase Philippine bonds which were issued prior to May 1, 1934, under authority of Acts of Congress.

During the three months preceding July 4, 1946, the Philippine Government and the Treasury of the United States should confer to ascertain that portion of the Philippine bonded indebtedness, referred to in the preceding paragraph, which would be outstanding after July 4, 1946; and, for that purpose, the Philippine Government should turn over to the Treasury of the United States, for custody pending ultimate destruction, all Philippine bonds issued prior to May 1, 1934, under authority of Acts of Congress, that may be held (cancelled or uncanceled) in any of its sinking funds. After such outstanding portion of this indebtedness is thus determined, and before July 4, 1946, unless some other arrangement shall have been made with the

^{1/} 48 Stat. 929.

Government of the United States in regard to its liquidation, there should be set up in the Treasury of the United States, in the name of the independent government of the Philippines, from the sinking funds mentioned in the preceding paragraph, a special trust fund in an amount sufficient to meet interest payments and to retire this outstanding portion of the Philippine debt at maturity (or earlier by the purchase of outstanding bonds upon request of the said independent government): Provided, That this outstanding portion of the Philippine debt should also be assumed by the said government as and in the manner provided in Section 2 (b) (3) and (5) of the Independence Act.

The Philippine Government should continue to set aside from its General Fund the interest and sinking fund charges now required by law in respect of all other debts and liabilities of the Philippines, its provinces, cities, and municipalities, not provided for in the two preceding paragraphs, as well as all debts and liabilities of its instrumentalities. All such debts and obligations outstanding on July 4, 1946, should be assumed by the independent government of the Philippines as and in the manner provided in Section 2 (b) (3) and (5) of the Independence Act: Provided, That whenever prior to July 4, 1946, it becomes certain that there will be a surplus in the export tax proceeds over the amount required for liquidating that portion of Philippine bonded indebtedness provided for in the two preceding

paragraphs, the Treasury of the United States may, upon the request of the Philippine Government, use this surplus to purchase, for deposit in a special sinking fund to be handed over to the independent government of the Philippines on July 4, 1946, any Philippine bonds that fall within the category described in the first sentence of this paragraph, and Provided further, That any balance that may remain in the Treasury of the United States on July 4, 1946, from the proceeds of the export taxes after all actual or estimated claims upon these proceeds (as set forth in the two preceding paragraphs and in the first proviso of this paragraph) have been provided for, should be turned over to the Treasury of the independent government of the Philippines to be placed in a sinking fund to be used exclusively for the purpose of retiring the debts and liabilities referred to in this paragraph.

In estimating the adequacy of the funds available to liquidate Philippine bonded indebtedness incurred prior to May 1, 1934, under authority of Acts of Congress, the Committee has had certain calculations prepared which are set forth in detail in Appendix VIII. These calculations are based primarily on the assumption that the annual payments into sinking funds now required by law for this category of indebtedness will continue until July 4, 1946, and that the yield of the export taxes will total approximately \$35,000,000. One set of these calculations presupposes that the funds available would earn 2% as cash deposits, and the other set presupposes that such funds

would be invested in Philippine bonds on the basis of a yield of 3-1/2%. Under the first arrangement, it is estimated that the surplus over requirements would be about \$13,000,000, and under the other arrangement about \$16,000,000. It would seem therefore that, if the Philippine Government continues to set aside the annual sinking fund payments now required by law and if the export taxes actually yield about \$35,000,000, the funds thus made available for debt retirement would be sufficient not only to liquidate that portion of the Philippine bonded indebtedness incurred prior to May 1, 1934, under authority of Acts of Congress, but also to liquidate a substantial part of other Philippine indebtedness.

4. Currency

There are three matters concerning the Philippine currency system to which the Committee has given consideration, as follows: the exchange standard, currency reserves, and the currency devaluation fund.

The exchange standard

The Act of March 2, 1903,^{1/} established the Philippine monetary system on a gold exchange standard with a legal ratio of two Philippine pesos to one United States dollar. The changes in the United States monetary system in 1934, made it necessary for the Philippines, without changing the aforesaid ratio, to adopt the dollar exchange standard.^{2/} Inasmuch as the trade of the Philippines is predominantly with the United States and nearly all of the Philippine debt is payable in dollars, it seems desirable that, during the Commonwealth period, the Philippine Government should continue without fundamental change the policy of maintaining the existing dollar exchange standard, at the present legal ratio of two pesos to the dollar.

Currency reserves

The Philippine Government as of December 31, 1937, maintained currency reserves of P190,500,000 against P167,000,000

^{1/} 32 Stat. 952.

^{2/} Act No. 4199 of the Philippine Legislature.

of money of the Government in circulation, and available for circulation. These reserves consisted of \$84,000,000 (equivalent to ₱168,000,000) deposited in the United States Treasury and commercial banks in the United States, \$1,850,000 (equivalent to ₱3,700,000) of United States currency held in the Philippines, and ₱18,800,000 of silver coin issued by the Philippine Government.^{1/} The ratio of total reserves to the total money in circulation, and available for circulation, was 114%, and the ratio of dollar reserves to the total money in circulation, and available for circulation, was 103%. Reserves of these proportions are substantially in excess of those sufficient to assure the maintenance of the peso at its legal ratio to the United States dollar.

The existence of such large currency reserves is primarily the result of the duplication of legal reserve requirements under the monetary legislation which has been in effect since January 2, 1923.^{2/} That legislation required the establishment of two monetary reserve funds: a Treasury Certificate Fund and a Gold Standard Fund (now called the Exchange Standard Fund). A reserve of not less than 100% of the amount of Treasury Certificates in circulation and available therefor must be held in the Treasury Certificate Fund. This reserve may consist of silver coin issued by the Philippine Government,

1/ Report of Insular Treasurer to the President of the Philippines for December 1937, dated January 10, 1938.

2/ Philippine Act No. 3058, June 13, 1922.

United States currency, and dollar deposits in the United States.^{1/}

The principal function of the Exchange Standard Fund is to maintain the parity of the peso with the dollar. It must be maintained in a sum of not less than 15% of the money of the Government of the Philippines in circulation and available for circulation, which, it will be noted, includes both coin and Treasury Certificates.^{2/} The result of these provisions is that Treasury Certificates secured by a 100% reserve, which in practice are maintained principally in the form of dollar deposits in the Treasury Certificate Fund, must have an additional reserve of at least 15% in the Exchange Standard Fund.^{3/}

Currency devaluation account

After the reduction of the weight of the United States gold dollar by Presidential Proclamation on January 31, 1934, the Congress, upon the recommendation of the President of the United States, in an Act approved June 19, 1934, authorized,

^{1/} Section 1626 of Philippine Act No. 4199, the monetary law now in effect.

^{2/} Section 1622 of Philippine Act No. 4199.

^{3/} On December 31, 1937, Treasury Certificates fully covered by dollar reserves amounted to approximately 90% of total Treasury Certificates in circulation and available therefor, and to approximately 75% of total currency in circulation and available therefor. (Report of Insular Treasurer, ibid.)

when the funds therefor are made available, a credit in favor of the Treasury of the Philippines of \$23,862,750.78, representing:

"... an amount equal to the increase in value (resulting from the reduction of the weight of the gold dollar) of the gold equivalent at the opening of business on January 31, 1934, of the balances maintained at that time in banks in the continental United States by the Government of the Philippine Islands for its gold standard fund and its Treasury Certificate fund, less the interest received by it on such balances."^{1/}

The Congress has not thus far appropriated funds to make the payment contemplated in the Act, and a bill seeking to repeal the authorization has been pending before the Congress for some time. In view of the fact that this matter involves questions which are not within the competence of the Committee, the only recommendation of the Committee on the subject is that the funds to be appropriated under the Act of June 19, 1934, referred to above, remain on deposit in the United States Treasury during the Commonwealth period as a credit to the Philippine Government. When the political relationship between the United States and the Philippines is severed, this fund should be turned over to the independent government in connection with the final settlement to be made regarding Philippine bonded indebtedness and Philippine monetary reserves held in the United States. This sum would strengthen the financial position of the independent Philippine Government and would be of material assistance in carrying on its program of economic adjustment.

^{1/} 48 Stat. 1115.

5. Banking

Commercial banking facilities in the Philippines are provided by seven Philippine banks, four branches of foreign banks, and one branch of an American bank. On June 30, 1937, the total resources of these institutions aggregated \$187,700,000 of which \$81,700,000 belonged to the Philippine National Bank, \$49,400,000 to other Philippine banks, and \$56,600,000 to the branches of foreign banks and to the branch of a national bank of the United States.^{1/} The Philippine National Bank of Manila, all of the stock of which is owned by the Philippine Government, has ten branches and forty-six provincial agencies throughout the Philippines. The other institutions operate eleven provincial branches.

Commercial banking facilities appear to be adequate in Manila and in the larger cities. The Philippine Government, through the establishment of provincial agencies of the Philippine National Bank, has attempted to facilitate the granting of loans to borrowers in rural regions.^{2/} There is no reason to believe, however, that commercial banks, even in cooperation with the Government, can solve the credit problems of the small agricultural borrowers.

The principal function of the Philippine National Bank is

^{1/} Based on "Statistical Data on Banks and Banking Institutions in the Philippines" compiled by the Bank Commissioner, Manila, August 31, 1937.

^{2/} The subject of agricultural credit is discussed in Part IV of this report.

to furnish banking services directly to the public. In addition, it has acted as the official depository of the funds of the Philippine Government and, in times of stress, has occasionally extended aid to other banks in the Philippines. This bank is accorded the note issue privilege, provided that notes outstanding do not exceed the amount of its capital and surplus and that a 25% cash reserve has been deposited with the Philippine Government. Under certain restrictions, the bank is permitted, in times of financial stringency, to exceed temporarily the legal maximum of its note issue; such notes, however, must be secured 100% by commercial paper, and 25% by a cash reserve on deposit with the Philippine Government.^{1/} Although the Philippine National Bank has exercised from time to time some of the functions which usually characterize a central bank, it is not primarily a bank of rediscount or a banker's bank; moreover, the amount of its note issue constitutes less than 10% of the currency in circulation in the Philippines.

Much of the commercial banking business in the Philippines is conducted by the Philippine National Bank and by branches of large banks with head offices in the United States or in foreign countries. These institutions would probably have no occasion to rediscount their commercial paper with a central bank in the

^{1/} Section 14 of Philippine Act No. 2938.

Philippines. Should other Philippine banks have occasion to borrow, they would probably be able to obtain funds either from the Philippine National Bank or from their foreign correspondents.

In view of the present structure of the Philippine banking and currency systems, there appears to be no necessity at the present time for the establishment of a bank in the Philippines whose functions would be primarily those of a central bank. Commercial and financial requirements in the Philippines, however, may be altered in the future, especially as a result of the changes incident to Philippine independence. The Committee recommends, therefore, that the studies which it has proposed for other fields of Philippine finance be extended to include the banking system of the Philippines.

C O N F I D E N T I A L

REPORT OF
THE JOINT PREPARATORY COMMITTEE
ON
PHILIPPINE AFFAIRS

PART IV
ECONOMIC ADJUSTMENT

PART IV - ECONOMIC ADJUSTMENT

1. Introduction

The elimination of preferential treatment of Philippine products in the United States will make necessary a fundamental and difficult adjustment of Philippine economy. The Committee believes, however, after having reviewed the problems of adjustment, that the trade program recommended in this report should afford the Philippines a reasonable opportunity to adjust its economy to a non-preferential basis. Given the necessary natural resources, time, and funds, the problem of effectuating the adjustment--except for unforeseen major contingencies--would become a matter primarily of proper planning and administrative efficiency.

Need for economic adjustment

The gradual elimination of the existing trade preferences will make it necessary for the Philippines to find not only replacements for a certain amount of the present agricultural and manufacturing production but also some means for maintaining adequate public revenue and purchasing power for imported articles.

The portion of Philippine agricultural production now believed to be dependent to a substantial degree on a preferential market in the United States represents a considerable value but not a great acreage, because it is confined almost exclusively to sugarcane and tobacco, which are crops that yield unusually large gross incomes per acre. At the present time in the Philippines there

are approximately 635,000 acres (257,000 hectares) of sugarcane and 183,000 acres (74,000 hectares) of tobacco. The land devoted to these two crops is equal to approximately 7-1/2% of the total area under cultivation. Statistical data on the value of Philippine sugar and tobacco products are given in Part II of this report. On account of the unpredictable variables involved, it is not possible to make satisfactory estimates of the extent to which the acreages of these crops will have to be reduced in consequence of the elimination of existing trade preferences; but there is reason to believe that unless conditions greatly different from the present should prevail it will be necessary for the Philippines to decrease substantially the present sugarcane and tobacco production.

Likewise, the elimination of trade preferences may be expected to require major decreases in the present level of manufacture of certain products, notably sugar, cigars, coconut oil, and pearl buttons.

Except for the temporary expedient of borrowing, the only source of a country's purchasing power for imports is to be found in its sales to other countries of commodities (including gold) and services; and at the present time it is estimated that one-half or more of the purchasing power of the Philippines for foreign (including American) products and services is obtained through the export of Philippine products which are dependent in large part on the existence of a preferential market in the

United States. Consequently, the elimination of American trade preferences on Philippine exports may be expected to give rise to a serious problem of maintaining the purchasing power of the Philippines for its necessary imports. The solutions for this problem will be sought necessarily through the creation, during the contemplated twenty-year transition period, of new or additional production for (a) export, to substitute in providing the foreign exchange now derived from the export of products dependent on trade preferences in the United States market, and (b) domestic consumption, to substitute for a portion of the present importations. Some action will need to be taken in each direction; but it should be recognized that the second course, which represents a direction of less resistance, is susceptible to economic abuse and, unless employed with the greatest care, is likely to result in the creation of industries so ill-adapted to Philippine conditions as to be permanently inefficient and burdensome on the welfare of the people.

On account of the fact that a substantial amount of the public revenue of the Philippines is currently derived from that portion of domestic production dependent on trade preferences in the United States market, the Philippine Government will find it necessary, as the existing preferences are gradually eliminated, to replace this source of revenue from either (a) the new or additional production to be created, or (b) the existing potential sources of public revenue.

A substantial part of the necessary economic adjustment will have to take the form of improvements in the efficiency not only of that portion of the present Philippine production which is dependent on trade preferences but also of that portion which is not so dependent. For instance, the Philippines could not expect to find a replacement crop for sugar which would yield on the same acreage an income approximating that derived as a result of the price premiums paid by the United States at the present time on Philippine sugar.

In order to effectuate the necessary improvements in the efficiency of established Philippine industries, as well as to create new efficient industries, it will be essential for the Philippine Government not only to aid the introduction of new agricultural or manufacturing industries but also to take substantial strides in the further reduction of illiteracy, in the improvement of communication and transportation facilities throughout the islands, in the improvement of health conditions, and in the further provision of those other basic public services that are requisite to the efficiency and well-being of a people. If, however, the potential sources of additional revenue were tapped, and if the present remittances of funds derived from United States taxes on Philippine products were continued during the Commonwealth period, there should be an adequate public revenue to finance an economic adjustment program of the extent that will be required to meet the problems which the people of the Philippines face in their effort to achieve complete independence.

Objectives of economic adjustment

The immediate and necessary objective of a program of economic adjustment is, of course, to offset insofar as possible the adverse effects of the discontinuance of trade preferences in the United States market. In order that the maximum advantage may be taken of this opportunity, it is believed that the program should be such as will tend to increase not only the productivity, and thus the standard of living, of the people of the Philippines above the levels that would otherwise prevail, but also the health of the people and their ability to participate in the problems and processes of democratic government. It is also believed that an objective of the adjustment program should be to distribute the import and export trade among many countries in order that the Philippines may not become economically dependent on its trade with a small group of nations.

There is another objective which, although negative in nature, is of such importance that it should be given careful attention in the development of an economic adjustment program. Reference is made to the necessity of avoiding the serious sacrifices in the standard of living that would be involved in an excessive pursuit of a policy of economic self-sufficiency. Undoubtedly there will be instances in which it may be found advantageous for the Philippine Government to resort to moderate public subventions in the form of tariffs, quotas, or bounties, to encourage the establishment of some industries which, although they would be rela-

tively inefficient at the time of their introduction, give promise of so improving efficiency within a brief period as to be able to carry on operations without the continuance of the subsidy. In practice, however, such promise is seldom fulfilled. There may also be instances in which public subventions could be justified in order to induce the production of a certain amount of a commodity which might be considered absolutely essential for national defense. But the Government of the Philippines will find it necessary to guard against including in its economic adjustment program a structure of trade barriers which, while purporting to find justification in the very limited "young industry" and "national defense" needs for protection, would constitute an unnecessary and permanent impairment of the standard of living of the people of the Philippines.

Expenditures for economic adjustment

If the present sales of Philippine coconut, sugar, and tobacco products in the United States, the existing United States taxes on such products, and the current remittances of the proceeds of such taxes, should continue until July 4, 1946, the Government of the Philippines will have received during the Commonwealth period a substantial fund which should prove reasonably sufficient to finance a comprehensive program of economic adjustment. Since, however, there is no guarantee that the Congress will continue either the levy of these taxes, or the remittance of the proceeds as recommended by the Committee, and

since a decrease could conceivably take place in the sales of these products in the United States, it would appear to be necessary to plan the program of economic adjustment in such manner that it could be adapted readily to a total supply of funds much less than might be estimated on the basis of current conditions.

The Committee also recommends that the remittances of all proceeds of United States taxes on Philippine products during the Commonwealth period should be reserved by the Government of the Philippines primarily for expenditure on a program of economic adjustment, and that none of these funds should be used either directly or indirectly to replace any portion of the present total ordinary revenue.

In order that the program may be correlated in point of time with the needs that will arise for economic adjustment, and in order that the Philippines may avoid the violent fluctuations in the wage and price levels that would result from concentrating extraordinarily large expenditures of public funds into the brief period during which the remittances will be received, it is believed that the expenditures not only should be related to the decreases in employment to be expected in some industries but also should be budgeted over practically the entire transitional period that is contemplated for the elimination of trade preferences in the United States.

Practically all economic adjustment projects require, in addition to the original capital outlays, some recurring expenses

for maintenance and operation. There are, however, considerable differences among alternative economic adjustment projects in this respect, and it is believed that in devising the adjustment program a preference should be shown for projects that require primarily capital outlays as distinguished from continuing expenses, which eventually might become burdensome on the regular budget of the National Government. As examples of projects having a relatively low ratio of maintenance and operating expenses to capital outlays, there may be mentioned: a resettlement project, which instead of requiring indefinite maintenance expense should begin after a few years to return the capital outlay made by the government, so that the original expenditure could be made into a revolving fund for a series of such projects; roads, the use of which, under a system of taxation on gasoline, ordinarily results in some increased revenue that becomes available for road maintenance; reforestation; the construction of school and hospital buildings, the maintenance of which is to be assumed by the local political subdivisions; the purchase of land, buildings, equipment, and stock for national agricultural stations, which thereafter could be maintained at small expense; public water supplies, for which the capital outlay rather than the maintenance constitutes the most significant cost; a soil survey and other necessary research projects, which do not require repetition; the establishment by the government of adapted and desirable agricultural and manufacturing industries which although

not sufficiently attractive to private capital at the present time, could well be expected to be self-supporting or, within a brief time, even revenue-producing; and the technical training of an increased staff of Filipinos for governmental and educational service.

It is also evident that in the selection of projects for an economic adjustment program, preference should be given to those undertakings that are most likely to benefit large, rather than small, groups of the population; that are most likely to constitute a continuing rather than a temporary benefit to the population; that will not confer unnecessary benefits on one group of the population at great expense to the general public; and that will tend to prevent the seasonal development of acute conditions of unemployment in individual production districts. These obviously desirable criteria would indicate, for instance, that a new system of roads to serve large areas would be preferable to a reclamation project for the benefit of a small group; that the importation of improved animal and plant breeding stock, the benefit of which would continue to expand for many years, would be preferable to expenditures for projects to yield temporary benefits; that it would be undesirable to use governmental funds, or resort to trade barriers, to create a poorly adapted new industry at great public expense in the form of taxes or inordinate prices to all consumers; and that some preference should be accorded projects which would increase the degree of diversification of the produc-

tion in highly specialized districts.

Organization for economic adjustment

It is important that the contemplated economic adjustment program for the Philippines should be designed as an entirety rather than allowed to accumulate as a heterogeneous and uncoordinated mass of individual projects which might be urged effectively upon the National Assembly and the Administration from time to time in a more or less random fashion by various interested minority groups. The Committee recommends that the program be formulated by a single organization of competent technicians, which would have simultaneously under its review all the principal needs and alternatives, in order that a better selection of projects may be made, that the individual projects may be correlated better with respect to both their natures and their times of execution, and that a great deal of waste and inefficiency may be avoided. The necessity for coordination is clear; a resettlement project, for example, might be fitted best into a general program of economic adjustment by choosing a site for the project which would be well adapted to the production of a group of commodities for which a market survey had indicated the existence of an adequate foreign or domestic demand, and by drawing the population for the resettlement project exclusively from an area in which it is imperative to relieve an overcrowded condition and to carry out a reforestation plan by bringing into the public domain steeply sloping lands now being

fields. Obviously a great amount of waste, duplication of effort, and sacrifice of technical competence would be involved if, for instance, a single organization in the form of an economic adjustment administration were set up to administer a program which included reforestation, road building, and plant and animal development, when regular governmental bureaus already exist for forestry, public works, plant industry, and animal industry. It might be desirable, however, to have the technical non-administrative organization, which formulates the economic adjustment program, make periodic checks on the work of the various administrative agencies charged with responsibility for carrying out the program and, on the basis of such reviews, render progress reports to the President of the Philippines in order that control may be exercised to prevent each administrative unit from either deviating from the original purpose of its portion of the program or failing to coordinate its work with that of the other administrative agencies.

2. Economic Adjustment Projects

The following suggestions are intended to indicate in broad outline the nature of some of the possible adjustment projects which the Committee believes should receive careful consideration by a technical organization in designing a comprehensive and well-integrated program for economic adjustment.

Improvement of technical training

As a matter of permanent policy, as well as with respect to their immediate needs arising out of the transition from a dependency to a republic, it is obvious that the people of the Philippines should avail themselves of the experiences and accumulated knowledge of the principal countries of the world. The great economic advancements made by some countries in recent years are in no small degree attributable to a policy of utilizing the technical knowledge that had been gained slowly and painfully by other nations. In order to acquire an adequate supply of highly skilled technical services, it is probably necessary for the Philippines to resort to the hiring of a few outstanding foreign technicians, at least as a temporary expedient for their immediate pressing needs; but with respect to the permanent requirements, it is believed that the government should adopt a policy of providing technical training for its own citizens. Consequently, it may be advisable to give consideration to the possibility of including in the adjustment program a plan composed of various projects for the improvement of educational facilities.

In order that a well-trained personnel may be developed for public service, including the work of instructing in the educational institutions, it might prove desirable to establish scholarships to defray the necessary costs for a few years of graduate training in the best foreign universities for a substantial group of the most promising university graduates. Another opportunity for making an important contribution to the training of an adequate personnel for public service is to be found in the possibility of providing for temporary teaching in the Philippines by distinguished foreign professors. In addition, it might prove advisable for the government to subsidize an arrangement for Sabbatical leaves of Philippine university faculty members in order that they might be afforded an opportunity to pursue advanced training in the best foreign institutions. Likewise, it may be true that some of the present technicians in the service of the government might find it possible to increase the efficiency of public service if they were afforded an occasional opportunity to examine closely the work of other governments and secure additional advanced training abroad.

Apparently in recognition of the need in the Philippines for improved educational facilities the Independence Act requires that "provision shall be made for the establishment and maintenance of an adequate system of public schools, primarily conducted in the English language". With the funds now being made available through the remittance of the proceeds of United States taxes on Philippine products, it is possible for the Commonwealth

of the Philippines to effectuate this intent of the Independence Act; the Committee, therefore, recommends the adoption of an adequate program for the construction of needed additional school buildings in those cases in which the cost of operation could be supported with ordinary revenues.

There is little prospect at the present time that more than a very few of those who receive a primary education will be able to attend secondary schools or colleges. Moreover, the economic position of the vast majority of primary school graduates renders it impossible for them to purchase the reading materials that would be necessary for continued education. In order to afford these people some opportunity for additional learning and self-advancement, it might be well for the Government of the Philippines to consider a project for expanding the very limited collections of books in the local schools into small uniform public libraries.

There is also an outstanding need in the Philippines for trade school training especially in agriculture, the largest industry of the islands. The so-called Manoz type of agricultural school would provide an effective method of disseminating a combination of academic training and practical experience in agriculture for which there is great need in all parts of the archipelago. A few additional such schools to serve the special needs of each of the principal agricultural regions of the Philippines might be expected to make contributions to the public welfare equal in value to many times the cost.

Improvement of transportation facilities

One of the most important advances that can be made in Philippine economy is through the extension of transportation facilities to the large areas of rich agricultural lands which are now inaccessible. Adequate transportation facilities are required in order to permit many small communities to market their products economically and purchase the products of other communities, to carry out plans for military defense, to extend communication and educational facilities to the now remote areas, to extend to all the population the numerous health and agricultural services offered by the government, and to bring the populations of individual districts more closely together into one nation with common ideals and understanding. Furthermore, the consummation of the principal benefits of the other most desirable economic adjustment and improvement projects will be contingent to a considerable extent on the construction of adequate transportation facilities.

Although there is obviously great need for additional public roads and improved inter-island transportation facilities, it appears doubtful upon preliminary review of the transportation problems in the Philippines that the expenditure of additional funds on railroad facilities would yield as much utility to the people as would the same expenditure for roads and bridges. There is also reason to doubt the advisability of withholding the construction of any obviously needed public roads for the purpose of indirectly subsidizing an established railroad--by securing to it a monopoly of the principal trans-

portation facilities for a district--whose services cannot be made available for many of the transportation needs of the lowest income groups. To deny these people the public roads which are necessary to improve their economic welfare is not to solve the transportation problem for a district but merely to burden the people with the needless cost of perpetuating an expensive and inadequate form of transportation. One of the most seriously needed transportation facilities in the Philippines is an adequate system of so-called farm-to-market roads to connect the more or less isolated small communities with the main roads between the principal market and distribution centers.

The Philippine Islands have a long irregular coast line which is approximately equivalent to twice that of the United States, yet for the guidance of mariners it is marked with only 227 lights, which are sparsely distributed among more than 7,000 islands; and channel buoys are lacking in most areas. The result of these deficiencies in ordinary safeguards for water transportation apparently means that certain economic developments which would otherwise occur are held in abeyance, that some transportation schedules are needlessly slow and expensive on account of the hazard of sailing at night under present conditions, and that, as a consequence, high premium rates are charged for marine insurance.

Although it might prove advisable after careful investigation for the Government to undertake to improve inter-island shipping services in order to increase the facilities, and to lower the present rates which retard the economic development of such areas

as Mindanao, it would seem that for a long period at least there will be many needs for the expenditure of public funds which would bring greater advantages to the people of the Philippines than the benefits that could be gained through equivalent outlays for an international merchant marine.

Conservation of natural resources

There is usually a close relationship among the problems of conserving forest, water, and soil resources. In most instances the three resources are destroyed simultaneously whenever the growth on a natural forested watershed is cut without proper re-planting. The ordinary depletion processes are well recognized: removal of the forest leaves a barren slope with only a part of its former water-retention power; consequently the moisture supply flows off the watershed as soon as deposited and converts a steady flowing drainage stream into one which alternately becomes flooded and dry, and the increased velocity of water-flow produces the phenomenon of soil erosion.

In some districts in the Philippines, for instance on the Island of Cebu, the destruction of forest resources is beginning to impair the water supply to a serious extent and the soil is being badly eroded. It seems clear that the people of the Philippines, despite the present abundance of total natural resources relative to the population, should establish a policy of conserving, and wherever practicable improving, the forest, water, and soil resources which must serve as the bases for the permanent economy of each inhabited district. Both reforestation and

afforestation suggest themselves as worthy economic improvement projects. It would probably be sound policy to undertake to bring into and retain in the public domain all the essential natural watershed areas in the islands. Some portions of the public domain which are open for homesteading at the present time are natural watersheds and lands with such steep slopes that the problem of preventing soil erosion makes them very poorly adapted to permanent and efficient agricultural operations. It is also possible that a significant contribution to the conservation of soil and water resources could be made in the Philippines, as has been accomplished in some other countries, through educating farmers to an appreciation of the gains that they may make for themselves by following soil conserving practices, such as contour cultivation, strip-cropping, terracing, and the use of cover crops, in their ordinary farming operations.

Mention may be made in this connection that among the various possible reforestation projects the establishment of additional cinchona plantations not only would serve the purposes of conservation but also would increase the production of an essential commodity (quinine for malaria) for which there exists both a serious need in the Philippines and a large foreign market. It may also be noted that there is need for the legislature to make available the very small fund that would be required to enforce the contractual obligation of lumbering concessionaires to replant properly the areas now being cut.

Fish is an item of primary importance in the Philippine diet.

It serves to balance the large consumption of rice and corn; and the fishing industry provides a livelihood for a large number of people. The methods of fishing, however, which have developed in the absence of public control, not only constitute a great waste of labor but also threaten to deplete this natural food supply. A large amount of small fish are taken; many mature fish are caught just prior to their spawning seasons; and some fishermen resort occasionally to poisoning and dynamiting, which involve the wasteful destruction of many fish. Consequently there seems to be reason to believe that the Government could increase and conserve the fishery resources of the islands by studying the life cycles of the various food fish, by operating hatcheries and protecting spawning grounds, and by providing an adequate patrol service to enforce the necessary fishing regulations.

Improvement of agriculture

Philippine economy is at present, and probably for several generations will continue to be, basically agricultural. The principal exports will be agricultural products and the standard of living--including the consumption of manufactured imports--will necessarily depend upon the amount of the agricultural productivity per person. The relatively low yields of most Philippine crops per capita and per hectare, in the presence of an excellent climate and an abundance of rich soils, are indicative of the opportunity that exists to increase the agricultural productivity, and thus the standard of living, of many of the Philippine people. With that objective in view it is believed that the fol-

lowing possible projects should be given careful consideration by a technical planning organization in constructing a program of economic adjustment:

Soil survey and mapping

Since the proper use of land is an essential basis for a sound program of Philippine economy, a census of the soil may be considered to be the most appropriate first step in planning agricultural improvement. The data collected through a soil survey would serve to indicate the areas best adapted to various crops, to make it possible to advise farmers as to the appropriate kinds and amounts of fertilizers, to furnish the necessary data for the selection and subdivision of resettlement sites and for the classification of lands which is required in the work of the Bureau of Forestry, and also to indicate the variations in the soil conservation practices required in the different localities.

National agricultural experiment station

In planning a program of agricultural improvement, especially one in which new replacement crops are intended to be introduced on a commercial scale, it is essential that adequate facilities be provided for the necessary experimental research and development. The plant varieties and the cultivation methods of other countries, where the desired new crops are already in commercial production, would have to be tested and developed under the various Philippine soil and climatic conditions. In order to carry out this work a central agricultural experiment station would be required with a substation in each of the distinct agricultural

regions of the islands.

It is believed that the work of developing well-adapted, prolific, and disease-resistant varieties of plants and animals to the point at which they could be made available to farmers for commercial production, would be accomplished with the least duplication of effort and with a maximum of good results if the task were divided into three general stages as follows:

The development of agricultural science, including the enlargement of the principles and technique of experiment and testing, which is the natural and basic field of work for an advanced agricultural college. The College of Agriculture at Los Baños is the only institution in the Philippines properly qualified to pursue this field of fundamental work, upon which all subsequent developments depend; and the faculty of the College should not neglect this basic work in order to devote a great amount of its time to the second stage of development work which involves only more or less routine scientific experimenting and testing.

The development of improved strains of plants and animals, and improved farming practices, which it is believed could best be accomplished through the medium of a central experiment station system under the direction of the Department of Agriculture and Commerce. Such an experiment system, composed of a central station with a substation in each of the distinct soil and climatic regions of the Philippines, would appear to be necessary in order to develop plants and animals best adapted to the

various local Philippine conditions, with respect to viability, productivity, disease resistance, and marketability.

Propagation and distribution of improved seeds, plants, and animals, to farmers in the local agricultural districts.

There are practically no private distributors of improved seeds and plants in the Philippines. It is believed that this function could best be performed by national agricultural service stations (described below) which would also function as the governmental agency to contact the individual farmers and render them certain other essential services.

There would appear to be many possible opportunities for the Philippines to enlarge and diversify its consumption and export of agricultural crops. The great variation of tropical soil and climatic conditions in the archipelago indicates the possibility of developing the successful commercial production of a large percentage of the numerous tropical farm products which are imported in significant quantities by many temperate zone countries. Moreover, at the present time the Philippines is importing many agricultural products which might be produced efficiently with the aid of some experimental development work and some governmental educational guidance. In some instances the Government might also find it desirable to render marketing and financial assistance to prospective producers of new crops.

The great need for developing better livestock in the Philippines is readily apparent: the dairy cattle produce on the average only a small fraction of the quantity of milk that could

be obtained from well-bred herds. Likewise, the goats do not produce more than a small fraction of the quantity of milk given by the best strains of milk goats adapted to Philippine conditions; and this is particularly unfortunate because the goat is especially well adapted for the production, under Philippine climatic conditions, of an economical supply of dairy products which is greatly needed by most families. The swine are small, slow-growing, and poorly shaped meat animals. The chickens are notably deficient with respect to both meat and egg production.

National agricultural service stations

The improvement of agriculture in the Philippines will depend, as elsewhere, not only on having a well-equipped College of Agriculture and a properly qualified national experiment station system to determine and develop agricultural products and practices best adapted to the conditions in each district, but also on having an efficient means of propagating and disseminating improved strains of plants and animals and information on improved agricultural practices to the farmers in each district. A system of national agricultural service stations would probably be required in order to contact the farmers effectively and encourage the adoption of improved farming practices and improved strains of plants and animals. Since the effectiveness of such agricultural service stations depends to a great extent on the convenience of their location for visiting farmers, it would probably be necessary to establish one fully equipped station in each province, with substations as required in certain provinces.

The effectiveness of a system of agricultural service stations in improving farming practices would also depend on whether the individual stations were adequate in size, say not less than 50 acres (20 hectares), were supervised by properly trained and competent managers, and were well supplied with equipment, materials, and labor. A properly managed and equipped system of agricultural service stations could be expected to become a channel of close contact between the central government and practically all farmers in the country.

The nature of the services which a system of national agricultural service stations should be expected to render may be summarized as follows:

Propagation and distribution of improved strains of plants and animals developed by the national experiment station, with special emphasis on the free or low cost distribution of improved seeds, plants, and animal breeding services, and representing not only products extensively grown in the local districts but also products which, although not widely produced locally, could be grown advantageously in the area--especially commodities now imported and new products to be exported.

Dissemination of information, partly by demonstration, on improved agricultural practices, with respect to: physical handling and protection of soils; soil building, plant fertilization, and animal feeding practices; control and use of the water supply; control of plant and animal diseases and insect pests; and increased diversification of products.

The great needs for these improvements in Philippine agriculture are so obvious that for the present purpose mere references to them should suffice. Except for the mechanical handling of soils in sugarcane production, most of the advantages of deep plowing and the turning under of vegetation are lost, because neither the draft animal nor the equipment is capable of performing the best work. Other than with respect to rice cultivation, very little effort is made through either terracing, contouring, diversion ditching, or the planting of special cover crops, to protect the soils against water erosion. In many instances no action is taken to maintain or improve soil fertility; numerous farmers depend for the replacement of plant foods in their soil on an erosion process by which the farm is overflowed and a soil deposit made by water that has eroded lands at a higher level. Philippine agriculture is dependent to a large extent, especially on account of the large acreage devoted to rice, on irrigation; but many of the systems, constructed by small groups of farmers, are inadequate and there is a very limited knowledge among many farmers of the best practices to be followed in using irrigation water.

There is need throughout the Philippines for the work that could be rendered by a system of national agricultural stations in controlling insect pests and plant and animal diseases. The locust, for instance, which is one of the most serious insect pests at the present time, can readily be controlled, provided the necessary funds for materials and labor are made available.

The savings made through the control of plant and animal insect pests and diseases are usually many times greater than the funds required for the purpose; and under tropical conditions, particularly, such control measures are required in order to protect and insure the success of a program involving the introduction of new crops. The lack of extreme temperature variation in the tropics, and the usual absence of extended periods without precipitation, make possible continuous life cycles for many pests, and this uninterrupted multiplication frequently becomes, in the absence of artificial control measures, a major factor in agricultural production.

The lack of diversification of products is a primary characteristic of Philippine agriculture which deserves governmental attention. The gains that could be expected from increased diversification of products would include: increased productivity of the land from crop rotation and animal husbandry; increased opportunities to make greater use of labor, land, and equipment through the production of more products during more seasons; and decreases in the credit requirements of farmers as a result of the greater distribution of risks among products, the increased amount of family subsistence derived from the farm, and the increased number of marketing seasons.

Rendering of special technical aid to farmers, including such work as the making of soil analyses to determine the selection and rotation of crops, and also the fertilization practices,

best adapted to the various temperature, soil, contour, and water supply conditions on individual farms.

Performance of educational work, largely through demonstration, on improvements in the field of home economics, including the improvement of health through sanitation, and the more efficient use of available labor and materials in making clothing, preparing and preserving food stuffs, and constructing buildings and equipment.

Performance of administrative work for, and in cooperation with, other governmental agencies and projects, such as agricultural census taking and crop reporting; the making of soil, plant, and animal surveys; the maintaining of plant and animal quarantine services; and the carrying out of programs that may be adopted in the future for the control of the production of individual crops, for the marketing of agricultural products, for making better agricultural equipment and supplies available to farmers at lower cost, or for decreasing the expense of agricultural credit.

Agricultural credit

The exorbitant cost of agricultural credit that prevails in the Philippines at the present time constitutes a major public problem for which there is no simple solution. A technical economic planning organization should have an opportunity to study the problem in all its ramifications and, in the light of its findings and the results in other countries of numerous agricultural credit programs under widely varying conditions, make

recommendations embodying a plan which would appear to be best adapted to Philippine conditions. The Committee does not feel prepared, on the basis of its necessarily brief study of the problem, to suggest any specific program as being best adapted for the extension of agricultural credit at reasonable costs. It believes, however, that the most desirable results could probably be obtained if a policy were adopted of attempting first to reduce the present needs for agricultural credit to the minimum (through such means as increased crop diversification and improved marketing facilities) and secondly to devise a plan to supply at low cost only the remaining or irreducible credit requirements.

The necessity of making a thorough study of the agricultural credit problems in the Philippines in order to find fundamental and effective solutions, is demonstrated by the meager success of the numerous attempts that have been made to solve a great group of credit problems by attacking a few of their individual manifestations. It may be found that the solution of the agricultural credit problems is contingent to a great extent on finding a solution for the agricultural marketing and purchasing problems.

Agricultural marketing and purchasing

As in the case of agricultural credit, it is believed that further study is advisable before adopting any plans for the improvement of agricultural purchasing and marketing facilities.

There is need for a convenient system of public agricultural warehouses throughout most of the farming districts in the Philippines; and probably their operation could be handled readily as a special service performed by an agricultural service station in each province; but equally clear is the desirability of developing other aspects of marketing services with which a warehousing plan should be coordinated.

It is also believed that a study of the marketing problems should include a careful analysis of the activities of The National Rice and Corn Corporation in order to determine whether its organization, facilities, or present objectives, could be so developed as to aid more effectively in the solution of both the present problems and those which might be expected to arise from changes in Philippine agricultural conditions.

The success in the United States and other countries of some of the agricultural cooperative associations in standardizing, packing, and marketing farm products should not be taken as indicative of the possibility of success under any conditions. For example, if the farmers in a district were illiterate or impoverished, they might not be able to form and operate successfully an ordinary agricultural cooperative marketing or purchasing association. Consequently, in view of the present early stage of development in the educational and financial status of many Philippine farmers it might be desirable that, instead of encouraging the formation of farmers' cooperative marketing associations, the Government should finance and operate a system of agricultural marketing and purchasing organizations on a non-profit basis.

Agricultural tenancy conditions

One of the most serious, and in a social sense the worst, of the agrarian problems in the Philippines at the present time arises from the existing system of land tenancy. In substantial measure the future prevention of social unrest in the Philippines will probably be contingent on the ability of the Government to effectuate satisfactory solutions for that problem.

It is undoubtedly true that in many instances the landlords or their agents take advantage of the ignorance and lack of bargaining power of tenants. Frequently a large share of the product of the land is taken by agents who act as middlemen between the tenants and landlords, and in some districts there has accumulated a group of traditional and deep-rooted abuses. Apparently no agency other than the National Government possesses either the legal powers or the facilities required to find and enforce the necessary remedial measures. These land-tenancy problems, like the agricultural credit and marketing problems with which they are closely inter-related, require thorough study by a competent technical economic organization.

It would appear that the purchase of the large agricultural estates by the Philippine Government, for resale to the tenants, would not of itself provide a solution for these problems, since one of the fundamental causes of distress arises from overcrowding of tenants on such lands, with the result that the individual farm plots would remain too small to furnish the tenant a reasonable standard of living even though he were given a much larger share

of the crop. Moreover, in view of the fact that the Government now possesses a large supply of good agricultural lands in the public domain, it might well be considered whether from an economic viewpoint it would be desirable to appropriate public funds for the purchase of existing privately owned agricultural lands for resale to the present tenants. Such a policy would place a drain on the public treasury and would not solve the fundamental problem of serious overcrowding of tenants on large estates. The basic solution for the problem would appear to be found in redistribution of the agricultural population.

Distribution of agricultural population

It is estimated that only approximately one-third of the arable land in the Philippines is under cultivation. The other two-thirds is included within the public domain, which comprises an abundance of virgin agricultural soils of excellent quality. Taken as a whole the Philippines are not densely populated. Yet in the presence of a relatively small total population and an abundance of good agricultural lands, one of the most important agrarian problems in the Philippines is that large numbers of farm families are compelled to subsist at an extremely low standard of living because they farm either (a) poor quality lands or (b) plots of good land which are too small to use effectively a family's labor throughout the year and facilitate the carrying out of diversified farming practices.

This paradoxical condition exists primarily as the result of three factors: (1) transportation facilities to good public lands have been either lacking or too expensive to be utilized by those who are suffering most from either poor land or overcrowding; (2) those farmers in the congested areas who are suffering most from the pressure of population on the local land supply, have not been able to finance or carry out all the work necessary (which often includes the clearing of a heavy jungle growth from virgin land) to gain a foothold on a plot of good land available for homesteading; and (3) the areas legally open for settlement have lacked not only the transportation and communication facilities required for the marketing of farm products and the purchasing of supplies, but also those essentials, such as educational and medical facilities, which are made available to farmers through the existence of conveniently located communities.

In connection with the need for redistributing the agricultural population of the Philippines, the Government has an opportunity to make an important contribution to the public welfare by devoting portions of its available funds and public domain to the development of well-planned resettlement projects on a large scale. Families now confined to poor land, or inefficiently small plots of good land, could readily be given an opportunity to enjoy the full potential benefits of their labor; and it is obvious that a significant reduction in the number of families in the overcrowded districts would contribute substantially to the solution of the land-tenancy problem by giving those farmers who would

remain in the present farming areas an opportunity to increase their incomes by cultivating larger plots of land.

In order, however, to insure the success of resettlement projects it is essential that considerable planning and development work be carried out before the lands are occupied. Highly undesirable conditions often result from the kind of unplanned resettlement which follows automatically the opening of public roads through a new territory. In such instances a great deal of the most desirable public land is taken by speculators or favored persons who have no intention of occupying or farming the property but who undertake to hold it by conforming merely to the minimum homesteading requirements until such lands come to have a market value which can be realized through their sale. Many families who take up plots along the roads built through a new territory perform a great deal of work in preparing land for cultivation which, on account of either the nature of the soil or the extreme slope of the surface or its location at the head of a valley, never should be devoted to agricultural purposes but should be left as a natural watershed. It is also true that in many cases the maximum good efforts of sincere homesteading families are met with failure because of the lack of a good water supply or the lack of control of malaria and other diseases. Furthermore, in the absence of governmental assistance very few individual families have the financial ability to subsist during the necessary clearing period, and even at best unaided settlers are almost certain to be denied the services and advantages that a well-planned community of farms can render.

For these reasons it is believed that the Philippine Government may find it advisable not only to establish well-planned resettlement projects on a very large scale but also to prevent the settlement of families on any portion of the public domain outside regularly established resettlement districts. It would appear necessary in order to assure the success of resettlement projects that they be surveyed and subdivided in accordance with the requirements of the community and the intended uses of the land, that a supply of potable water be developed, that adequate disease control measures be taken, that a portion of each plot be cleared for cultivation before it is turned over to the prospective settlement family, and that at least the initial steps be taken in the establishment of marketing, purchasing, educational, and medical facilities. It may also be necessary to provide some additional requirements such as livestock, equipment, and initial plantings.

Traditionally, in both the United States and the Philippines, portions of the public domain have been opened for settlement under homesteading processes which gave the settlers an opportunity to acquire legal title to the land. There may be reason, however, for the Philippine Government to consider whether under the prevailing and prospective conditions it should continue the policy of divesting itself of title to public lands which are made available for resettlement.

Improvement of Manufacturing

In view of the fact that the Philippines is lacking in some of the principal factors, such as cheap power, an abundant supply of technical training, and large internal markets, which form the basis for the development of large scale industries in several of the temperate zone countries, it would not appear possible to establish in the Philippines, at the present stage of its development, reasonably efficient units of mass production industry.

A number of articles are manufactured efficiently in the Philippines at the present time and the production of some of these might be expanded. There is reason to believe that a careful survey of other possibilities might be expected to disclose other instances in which manufacturing industries could be established with a reasonable prospect of success. If a thorough survey were undertaken by a competent economic planning organization, there would be some assurance that projects would not be launched which were doomed to failure from the outset on account of some basic inadaptability, and also some assurance that no possibilities of establishing promising industries were being overlooked. Since a comprehensive survey of possibilities is desirable, there is no need to enumerate here the industries which at present would appear to be the best adapted to Philippine conditions.

Under the existing circumstances, it might be necessary for the government to take the initiative in establishing certain new manufacturing industries in the Philippines. In this connection

it is suggested that an economic planning organization should investigate thoroughly the present organization, policies, and objectives of the National Development Company in order to determine whether their adaptability to the present and future problems of economic adjustment could be increased.

Improvement of tariff schedules

The existing tariff schedules of the Philippines have been in effect without substantial amendment for nearly thirty years. The present rates, classifications of commodities, and methods of valuation are not well adapted, in some respects, to current trade conditions. The need for a revision is indicated. The general revision, however, of a nation's tariff schedules entails so many possibilities of impairing the standard of living of the people, and of granting unjustifiable subventions to minority groups, that the work should not be undertaken without the advice of disinterested and competent technicians.

Improvement of public revenue systems

Under their present revenue systems very few of the local governments in the Philippines can finance the essential minimum of those public services which may appropriately be considered their responsibilities. The completing and bringing up-to-date of public land records and tax assessments would greatly assist the local governments in obtaining increased revenue. For the purpose both of increasing government revenues and facilitating the execution of the program of economic adjustment, the government

should expedite the land survey and the adjudication of titles, and should also establish more equitable appraisal of property for the purpose of tax assessments.

The general revenue system of the Philippine Government, like that of nearly all countries, represents an uncoordinated accumulation of taxes which have been imposed by the legislature from time to time under variable circumstances. Consequently a careful study of the taxation system by a technical economic planning organization might be expected to disclose some instances in which it could be revised to make the levies better adapted to present conditions and especially to the problems of economic adjustment.

The public interest would be served by a revision of the revenue system which would distribute the burden of taxation more nearly in proportion to the ability of persons to pay. The present Philippine rates of tax on large incomes are very much less than taxes in the United States on comparable incomes. A survey of the existing revenue system might also indicate that it would be desirable to lower the tax burden on certain struggling industries which are handicapped in their development at the present time, and seek more revenue from levies on the most profitable industries. In relation to the program of resettlement for the relief of the prevailing land-tenancy conditions, it might be well to consider whether a special tax could be used to discourage the practice of distributing farm land into plots too small to meet reasonably the requirements of individual families.

Improvement of health conditions

Probably one of the most inexpensive but effective contributions that can be made to the necessary adjustment of Philippine economy is to be found in the field of public health. In the final analysis, of course, the productivity, and thus the standard of living, of a people depends on the quantity and the efficiency of labor applied to the natural resources; and in the case of the Philippines it is apparent that a great deal of labor is wasted or rendered inefficient by the prevalence of disease. It has been estimated, for instance, by one investigator that 85 percent of the rural population is infested with round worms and hookworms. The death rate, although not higher than in other countries in the Orient, is approximately twice that prevailing in the United States. Malnutrition is prevalent in many rural districts; and the mortality from tuberculosis is nearly three times that in the United States. The typical Philippine rural area appears to be caught in a vicious circle in which disease causes inefficiency, which in turn results in malnutrition and the impairment of disease resistance.

Aside from the various opportunities which have been discussed for increasing the effectiveness of such labor as is applied to the natural resources, it would appear that a great contribution could be made in bringing about a progressive improvement of the national health, by eradicating the two chief agencies for the spread of parasitism, namely, impure water supplies and improper waste disposal. If the Philippine Government

would undertake to provide wells to supply safe drinking water for additional small communities, and if the construction of waste disposal facilities could be encouraged through education, public subsidies, and enforcement of the present statutes, two basically important steps would have been taken to improve the health and economic condition of the Philippine people.

The substantial number of deaths from beriberi could be decreased considerably through the improvement of general education, which seems to be the most effective means of making people aware of the dangerous consequences of a diet confined largely to polished rice. Malaria ranks among the most serious contagious diseases in the Philippines; it can be controlled effectively without great expense, and the Government might well extend such service to the inhabited districts which are now infested with malaria-transmitting mosquitoes as well as to any new areas that may be opened for settlement.

No hospital facilities are available for the communities in many large districts in the Philippines; and of course in the absence of hospitals it is practically impossible to prevent the spread of contagious disease by isolation of those infected. It is believed that the Philippine Government might well undertake the construction of public hospitals in those areas which now lack such facilities but in which there is a reasonable possibility that the Provincial Government would be able to support their operation. In addition to its functions as a first aid and quarantine station, the public hospital in the Philippines

could very well be made the headquarters for still more important public health services, namely, free or low-cost medical dispensaries and rural nursing. It would seem likely that limited medical services could be supplied most effectively and economically in the rural districts of the Philippines, as they are supplied in some of the relatively inaccessible mountain districts in the United States, through a corps of traveling nurses who have received at least a practical amount of general medical education.

C O N F I D E N T I A L

REPORT OF
THE JOINT PREPARATORY COMMITTEE
ON
PHILIPPINE AFFAIRS

PART V
RIGHTS AND INTERESTS OF THE UNITED STATES
AND ITS CITIZENS IN THE PHILIPPINES AND
OF THE PHILIPPINES AND ITS CITIZENS IN
THE UNITED STATES

PART V - RIGHTS AND INTERESTS OF THE UNITED STATES AND ITS
CITIZENS IN THE PHILIPPINES AND OF THE PHILIPPINES AND
ITS CITIZENS IN THE UNITED STATES^{1/}

1. Rights and interests of citizens of the two countries

In accordance with the declared policy of ultimately granting independence to the Philippines, the United States has given the Philippines increasing degrees of autonomy, culminating in the Independence Act of March 24, 1934, under the terms of which the United States will relinquish its sovereignty on July 4, 1946. Under this grant of autonomy, the Philippine authorities exercise control in matters affecting the rights and interests of citizens of the United States in the Philippines. In connection with the administration of this control by the Commonwealth authorities, some complaints have been made that protection of the type contemplated under the terms of the Act has not been fully accorded. With regard to the rights and interests which, during the Commonwealth period, citizens of the Philippines are to enjoy in the United States, the Independence Act contains no provision. Because of this and possibly for other reasons, there has developed in the United States a feeling and, in some instances, a legislative tendency, to consider citizens of the Philippines as if they were aliens.

In view of the situations which have thus developed in the

^{1/} The term "citizens" is here used to include corporations.

United States and in the Philippines, the Committee recommends that, during the Commonwealth period, the authorities of the two countries, in both legislative and administrative action, should adhere to the policy of not curtailing the rights and privileges which citizens of the United States enjoyed in the Philippines and which citizens of the Philippines enjoyed in the United States, prior to the inauguration of the Commonwealth Government.

2. United States Government property in the Philippines

The Independence Act contains several provisions in regard to the property and rights, including military and other reservations, of the United States in the Philippines. Section 5 of the Act provides that all the property and rights in the Philippines acquired by the United States under its treaties with Spain shall be granted to the Commonwealth Government except (a) such land or other property as had, prior to the passage of the Act, been designated by the President as military or other reservations, and (b) such land or other property or rights or interests therein as may have been sold or otherwise disposed of in accordance with law. Section 10 (a) of the Act provides that on July 4, 1946, the United States shall surrender to the independent government of the Philippines "all right of possession, supervision, jurisdiction, control, or sovereignty", then existing and exercised in and over the territory and people of the Philippines,

including all military and other reservations, except naval reservations and fueling stations.

In Section 2 (b) (1) it is provided that the property rights of the United States and the Philippines shall be promptly adjusted and settled--a provision which is not to become effective until the date of independence. The Committee recommends that, inasmuch as under Section 2 (b) (1) the question of adjustment and settlement in regard to equipment and improvements on the properties handed over to the independent government will probably involve certain financial arrangements, the said adjustment and settlement be determined prior to July 4, 1946, so that adequate preparations may be made.

After the independent government is established on July 4, 1946, the Government of the United States will require, for its official establishments in the Philippines, properties such as a government normally maintains in the territory of a foreign country. For instance, the Government of the United States now contemplates the erection of certain buildings on a portion of the Camp John Hay Military Reservation, near the city of Baguio, for the use of its official representatives in the Philippines during and following the Commonwealth period. Unless some arrangement is made before the independent government comes into existence, this property, as a part of a military reservation, must be surrendered to the independent government. In view of the extensive properties which will be turned over to the

independent government under existing law, the Committee also recommends, as a matter of equity, that, prior to the establishment of that government, some arrangement be made under which title to such properties as the United States may require for the aforementioned purpose would either be retroceded to the United States without compensation, or be acquired by the United States through an exchange of properties.

C O N F I D E N T I A L

REPORT OF
THE JOINT PREPARATORY COMMITTEE
ON
PHILIPPINE AFFAIRS

PART VI
BEARING OF THE DATE OF INDEPENDENCE ON
THE PROGRAM OF ECONOMIC ADJUSTMENT

PART VI - BEARING OF THE DATE OF INDEPENDENCE ON
THE PROGRAM OF ECONOMIC ADJUSTMENT

The date on which the Philippines will attain independence under the terms of the Independence Act is July 4, 1946. By its terms of reference, the Committee was precluded from recommending any change in the date of independence. The Committee was directed, however, to consider the bearing which an advancement in the date of independence to 1938 or 1939 would have on facilitating or retarding the execution of a program of economic adjustment in the Philippines.

The two essential factors for the effectuation of a program of economic adjustment are time and funds. With regard to the first factor, the Committee assumes, for the purpose of this discussion, that the period contemplated in its recommendations (extending through December 31, 1960) would remain the same regardless of the date of independence. With regard to the second factor, however, the date of independence has an important bearing. Since it may be expected that the extraordinary revenues which now accrue from the remittances of United States excise taxes on sugar and coconut products will cease upon attainment of independence, any advancement of the date of independence would result in a reduction of the funds available for economic adjustment. An advancement in the date of independence would also reduce the revenue to be derived from export taxes required by the Independence Act, and thus deprive the Philippine Government of an important source of revenue for debt retirement.

sufficient, it is estimated, to liquidate the greater part of the existing Philippine bonded indebtedness.^{1/} In addition, the Commonwealth Government would have to complete within a shorter period its national defense program and other preparations for its future independent status. The resulting increase in expenditures for those purposes would coincide with a decline in revenue, and thus reduce the funds available for carrying out the economic adjustment program.

The Committee believes, therefore, that an advancement of the date of independence would materially increase the difficulties of the Philippine adjustment problem and result in a delay in the attainment of the objectives contemplated in the Committee's terms of reference.

^{1/} United States duties would no doubt be imposed on Philippine products in lieu of Philippine export taxes.

C O N F I D E N T I A L

REPORT OF
THE JOINT PREPARATORY COMMITTEE
ON
PHILIPPINE AFFAIRS

PART VII
RECOMMENDATIONS AND THEIR EFFECTUATION

PART VII - RECOMMENDATIONS AND THEIR EFFECTUATION

RECOMMENDATIONS

The principal recommendations of the Committee are as follows:

TRADE RELATIONS

Commonwealth Period - November 15, 1935 to July 4, 1946

A. General provisions

1. During the Commonwealth period all Philippine products (except as specified below under B, 1 and 2) should be admitted into the United States free of duty, and all United States products should be admitted into the Philippines free of duty.
2. Beginning January 1, 1941, the Philippine Government should levy and collect for the account of the Philippine Treasury export taxes equivalent to 5% of the then existing United States duties on all Philippine products exported to the United States (except as specified below under B, 1). These export taxes should be increased by an additional 5% on January 1, 1942, and on each January 1 thereafter, until on January 1, 1945, they should be equal to 25%^{1/} of the then existing United States duties.

B. Quota provisions to govern shipments to the United States

1. Quotas not subject to the export tax

- (a) An annually declining duty-free quota, commencing with 200,000,000 cigars for the calendar year 1940, should be imposed upon imports of Philippine cigars into the United States. This quota should be free from export taxes, and should be reduced by 5% of the initial amount for each succeeding calendar year, until it equals 150,000,000 cigars for the calendar year 1945. For the period January 1, 1946, through July 3, 1946, the quota should be one-half of the

^{1/} Upon the recognition of the independence of the Philippines on July 4, 1946, export taxes will no longer be required by the United States.

quota for the preceding year, or 75,000,000 cigars. Shipments in excess of the aforementioned quotas should also be free from export taxes but subject to whatever United States duty may be in force at the time.

- (b) An annually declining duty-free quota, commencing with 4,500,000 pounds for the calendar year 1940, should be imposed upon imports of Philippine scrap tobacco, cigar-ends, and stripped filler tobacco into the United States. This quota should be free from export taxes, and should be reduced by 5% of the initial amount for each succeeding calendar year, until it equals 3,375,000 pounds for the calendar year 1945. For the period January 1, 1946, through July 3, 1946, the quota should be one-half of the quota for the preceding year, or 1,687,500 pounds. Shipments in excess of the aforementioned quotas should also be free from export taxes but subject to whatever United States duty may be in force at the time.
- (c) An annually declining duty-free quota, commencing with 200,000 long tons for the calendar year 1940, should be imposed upon imports of Philippine coconut oil into the United States. This quota should be free from export taxes, and should be reduced by 5% of the initial amount for each succeeding calendar year, until it equals 150,000 long tons for the calendar year 1945. For the period January 1, 1946, through July 3, 1946, the quota should be one-half of the quota for the preceding year, or 75,000 long tons. Shipments in excess of the aforementioned quotas should also be free from export taxes but subject to whatever United States duty may be in force at the time.
- (d) An annually declining duty-free quota, commencing with 250,000 gross for the calendar year 1940, should be imposed upon imports of Philippine pearl buttons into the United States. This quota should be free from export taxes, and should be reduced by 5% of the initial amount for each succeeding

calendar year, until it equals 637,500 gross for the calendar year 1945. For the period January 1, 1946, through July 3, 1946, the quota should be one-half of the quota for the preceding year, or 318,750 gross. Shipments in excess of the aforementioned quotas should also be free from export taxes but subject to whatever United States duty may be in force at the time.

2. Quotas subject to the export taxes

- (a) An annual quota of 850,000 long tons, commercial value, in any calendar year, should be imposed upon imports of Philippine sugar into the United States, of which quota not more than 50,000 long tons, commercial value, may be refined sugar. Shipments in excess of the quota should be free from export taxes but subject to whatever United States duty may be in force at the time.
- (b) Upon expiration of the Cordage Act^{1/} on May 1, 1941, an annual quota of 6,000,000 pounds, in any calendar year, should be imposed upon imports into the United States of Philippine cordage, exclusive of binder twine. Shipments in excess of the quota should be free from export taxes but subject to whatever United States duty may be in force at the time.

C. Special provisions

- 1. Export taxes on shipments to the United States of Philippine embroideries made of cloth which is the product of the United States should be assessed on the basis of the dutiable value as provided in the United States Tariff Act of 1930, less the value (c.i.f. the Philippines) of the cloth embodied in such embroideries.
- 2. Abaca and copra should be bound free of United States duty.
- 3. The allocation of all quotas recommended in this report should be based on formulae already provided by law or, in the absence of any formulae, on the following basis: the annual quotas should be allocated among the manufacturers whose products were exported in 1937, on the basis of the proportion which each manufacturer's maximum production shipped to the United States (either

directly or through others) in any calendar year during the five-year period, 1933-1937, bears to the total of such maximum shipments of all manufacturers.^{1/} The administration of the allocation of these quotas should be effected for Philippine exports, in accordance with rules and regulations prescribed by the Government of the Philippines.

4. The Philippine Government should agree to increase its import duties on evaporated milk, canned fish, and cotton textiles, as provided in Appendix III.

Period of Tariff Preferences after Independence -
July 4, 1946, through December 31, 1960

A. General provisions

1. On and after July 4, 1946, the Philippine Government should levy and collect on all United States products imported into the Philippines (except as specified below under B), 25% of the then existing Philippine duties. This rate should be increased by 5% on each succeeding January 1, until January 1, 1961, when the full Philippine duties should be collected and all preferences terminated.
2. On and after July 4, 1946, the United States Government should levy and collect on all Philippine products imported into the United States (except as specified below under B), 25%

^{1/} For example, assuming that the quota for a given commodity is fixed at 800 units:

Manufacturer	<u>Maximum production</u> <u>shipped to the</u> <u>United States during</u> <u>1933-1937</u>		<u>Share</u> <u>of</u> <u>Total</u>		<u>Quota</u>
	<u>Units</u>		<u>Percent</u>		<u>Units</u>
A	200 (1933)		20		160
B	300 (1935)		30		240
C	500 (1937)		50		400
Total	1000		100		800

of the then existing United States duties.^{1/} This rate should be increased by 5% on each succeeding January 1, until January 1, 1961, when the full United States duties should be collected and all preferences terminated.

B. Quota provisions

1. Declining duty-free quotas

- (a) For the period July 4, 1946, through December 31, 1946, a duty-free quota of 75,000,000 cigars should be imposed upon imports of Philippine cigars into the United States. The duty-free quota of 150,000,000 cigars imposed for the calendar year 1945 should be reduced by 10,000,000 cigars (i.e., 5% of the initial quota of 200,000,000 cigars) for the calendar year 1947 and by the same amount for each succeeding calendar year, until 1961. Shipments in excess of the aforementioned quotas should be subject to whatever United States duty may be in force at the time.
- (b) For the period July 4, 1946, through December 31, 1946, a duty-free quota of 1,687,500 pounds should be imposed upon imports of Philippine scrap tobacco, cigar-ends, and stripped filler tobacco into the United States. The duty-free quota of 3,375,000 pounds imposed for the calendar year 1945 should be reduced by 225,000 pounds (i.e., 5% of the initial quota of 4,500,000 pounds) for the calendar year 1947, and by the same amount for each succeeding calendar year, until 1961. Shipments in excess

^{1/} It is expected that the Philippine Government will pass necessary legislation after independence, to provide for the remission of export taxes collected on shipments to the United States made prior to July 4, 1946, provided such shipments arrive in the United States after that date and thereby become subject to United States import duties. In the absence of such legislation, Philippine exports to the United States would, for a limited period, be subject to both Philippine export taxes and United States import duties.

of the aforementioned quotas should be subject to whatever United States duty may be in force at the time.

- (c) For the period July 4, 1946, through December 31, 1946, a duty-free quota of 75,000 long tons should be imposed upon imports of Philippine coconut oil into the United States. The duty-free quota of 150,000 long tons imposed for the calendar year 1945 should be reduced by 10,000 tons (i.e., 5% of the initial quota of 200,000 tons) for the calendar year 1947 and by the same amount for each succeeding calendar year, until 1961. Shipments in excess of quotas should be subject to whatever United States duty may be in force at the time.
- (d) For the period July 4, 1946, through December 31, 1946, a duty-free quota of 318,750 gross should be imposed upon imports of Philippine pearl buttons into the United States. The duty-free quota, of 637,500 gross imposed for the calendar year 1945 should be reduced by 42,500 gross (i.e., 5% of the initial quota of 850,000 gross) for the calendar year 1947 and by the same amount for each succeeding calendar year until 1961. Shipments in excess of quotas should be subject to whatever United States duty may be in force at the time.
- (e) For the period July 4, 1946, through December 31, 1946, a duty-free quota of 1,125,000,000 cigarettes should be imposed upon imports of United States cigarettes into the Philippines. For the calendar year 1947 a duty-free quota of 2,100,000,000 cigarettes should be imposed, which quota should be reduced by 150,000,000 cigarettes (5% of 3,000,000,000 cigarettes, which was the approximate number shipped to the Philippines in 1937) for each succeeding calendar year, until 1961. Shipments in excess of quotas should be subject to whatever Philippine duty may be in force at the time.

2. Quotas subject to declining tariff preferences

- (a) The quota imposed during the Commonwealth period upon imports of Philippine sugar into the United States should be continued.

Sugar entering under this quota should be subject to the progressive import duties provided for above under A, 2. Imports in excess of the quota should be subject to whatever United States duty may be in force at the time.

- (b) The quota imposed during the Commonwealth period, after the expiration of the Cordage Act, upon imports of Philippine cordage into the United States should be continued. Cordage entering under this quota should be subject to the progressive import duties provided for above under A, 2. Imports in excess of the quota should be subject to whatever United States duty may be in force at the time.

C. Special provisions

1. In the assessment of progressive import duties, the dutiable value of imports into the United States of Philippine embroideries made of cloth which is the product of the United States should be the dutiable value as provided in the United States Tariff Act of 1930, less the value (c.i.f. the Philippines) of the cloth embodied in such embroideries.
2. After the independence of the Philippines is recognized by the United States on July 4, 1946, the United States excise tax rate applicable to coconut oil, from whatsoever source derived, should be no higher than the rate applicable to palm oil (except for use in making tin plate) or to palm kernel oil.
3. The allocation of all quotas recommended in this report should be based on formulae already provided by law or, in the absence of any formulae, on the following basis: the annual quotas should be allocated among the manufacturers whose products were exported in 1937, on the basis of the proportion which each manufacturer's maximum production shipped to the United States (either directly or through others) in any calendar year during the five-year period, 1933-1937, bears to the total^{1/} of such maximum shipments of all manufacturers.

^{1/} For illustration, see footnote above under C, 3--Commonwealth Period.

The administration of the allocation of these quotas should be effected for Philippine exports, in accordance with rules and regulations prescribed by the Government of the Philippines, and for United States exports, in accordance with the rules and regulations prescribed by the Government of the United States.

4. Products of the Philippines shipped to the United States and manufactured into articles which are later exported to the Philippines should be subject to a drawback of the United States preferential duties paid on such Philippine products.
5. Products of the United States shipped to the Philippines and manufactured into articles which are later exported to the United States should be subject to a drawback of the Philippine preferential duty paid on such United States products, without thereby becoming subject to the then existing full United States duties.
6. The recommendations of the Committee with respect to United States-Philippine trade relations after independence should be incorporated in a treaty to become effective July 4, 1946, and to continue in effect through December 31, 1960, subject to denunciation upon two years' notice at any time after July 4, 1953. The negotiation of such a treaty should be undertaken as soon as practicable.

FINANCE

A. Revenues and expenditures

1. During the Commonwealth period, the proceeds of any United States excise taxes on sugar and coconut products of Philippine origin should continue to be covered into a special fund in the Treasury of the United States, to be paid over to the Treasury of the Philippines, primarily for the purpose of financing the adjustment of Philippine economy to a position independent of preferences in the United States market: Provided, That the President of the United States may direct the Treasury of the United States to withhold or discontinue remittances in the event that the funds should, in his

opinion, be appropriated or expended for purposes which would seriously prejudice the realization of the objective set forth above.

2. Inasmuch as the proceeds of the excise taxes referred to in the preceding paragraph are of an extraordinary nature for a temporary period, the Philippine Government should adopt a general policy of not using these proceeds in substitution for ordinary government revenues.
3. In connection with the formulation of the long-range economic adjustment program suggested in Part IV of this report, the Philippine Government should formulate plans for financing its adjustment program, the cost of which should be budgeted separately from other expenses, taking into consideration the need to provide funds to carry on the program after the date of independence when the extraordinary revenue now available and expected to be available only during the Commonwealth period shall have ceased.
4. In anticipation of the future financial requirements, not only of the Commonwealth Government but also of the independent government to be inaugurated on July 4, 1946, the Philippine Government should revise the existing Philippine revenue system, with a view to effecting a more equitable distribution of the tax burden, and in order to meet the increased expenditures that may be anticipated as a result of independence.

B. Bonded indebtedness

1. The Philippine Government should continue to set aside from its General Fund the interest and sinking fund charges now required by law in respect of that portion of the outstanding bonded indebtedness of the Philippines, its provinces, cities, and municipalities, incurred prior to May 1, 1934, under authority of Acts of Congress, as is already provided in Section 2 (b) (3) of the Independence Act. In addition, the proceeds of the export taxes required by Section 6 (e) of the Independence Act should be deposited in a special account in the Treasury of the United States, to constitute a supplementary sinking fund for the liquidation of this portion of the

public debt, and to bear interest in accordance with the provisions of the Act of Congress approved June 11, 1934:^{1/} Provided, That in accordance with the procedure now applicable to the handling of sinking funds of the Philippine Government in the United States, this supplementary sinking fund may be used to purchase Philippine bonds which were issued prior to May 1, 1934, under authority of Acts of Congress.

2. During the three months preceding July 4, 1946, the Philippine Government and the Treasury of the United States should confer to ascertain that portion of the Philippine bonded indebtedness, referred to in the preceding paragraph, which would be outstanding after July 4, 1946; and, for that purpose, the Philippine Government should turn over to the Treasury of the United States, for custody pending ultimate destruction, all Philippine bonds issued prior to May 1, 1934, under authority of Acts of Congress, that may be held (cancelled or uncanceled) in any of its sinking funds. After such outstanding portion of this indebtedness is thus determined, and before July 4, 1946, unless some other arrangement shall have been made with the Government of the United States in regard to its liquidation, there should be set up in the Treasury of the United States, in the name of the independent government of the Philippines, from the sinking funds mentioned in the preceding paragraph, a special trust fund in an amount sufficient to meet interest payments and to retire this outstanding portion of the Philippine debt at maturity (or earlier by the purchase of outstanding bonds upon request of the said independent government): Provided, That this outstanding portion of the Philippine debt should also be assumed by the said government as and in the manner provided in Section 2 (b) (3) and (5) of the Independence Act.
3. The Philippine Government should continue to set aside from its General Fund the interest and sinking fund charges now required by law in respect of all other debts and liabilities of the Philippines, its provinces, cities, and

municipalities, not provided for in the two preceding paragraphs, as well as all debts and liabilities of its instrumentalities. All such debts and obligations outstanding on July 4, 1946, should be assumed by the independent government of the Philippines as and in the manner provided in Section 2 (b) (3) and (5) of the Independence Act: Provided, That whenever prior to July 4, 1946, it becomes certain that there will be a surplus in the export tax proceeds over the amount required for liquidating that portion of Philippine bonded indebtedness provided for in the two preceding paragraphs, the Treasury of the United States may, upon the request of the Philippine Government, use this surplus to purchase, for deposit in a special sinking fund to be handed over to the independent government of the Philippines on July 4, 1946, any Philippine bonds that fall within the category described in the first sentence of this paragraph, and, Provided further, That any balance that may remain in the Treasury of the United States on July 4, 1946, from the proceeds of the export taxes after all actual or estimated claims upon these proceeds (as set forth in the two preceding paragraphs and in the first proviso of this paragraph) have been provided for, should be turned over to the Treasury of the independent government of the Philippines to be placed in a sinking fund to be used exclusively for the purpose of retiring the debts and liabilities referred to in this paragraph.

C. Currency

1. During the Commonwealth period, the Philippine Government should continue without fundamental change the policy of maintaining the existing dollar exchange standard, at the present legal ratio of two pesos to the dollar.
2. The funds to be appropriated under the Act of Congress of June 19, 1934,^{1/} relating to Philippine currency reserves in the United States should remain on deposit in the Treasury of the United States during the Commonwealth period as

a credit to the Philippine Government, to be turned over to the independent Philippine Government in connection with the final settlement to be made regarding Philippine bonded indebtedness and monetary reserves held in the United States.

D. Banking

In connection with other studies which the Committee has recommended should be made concerning matters of finance, the Philippine Government should undertake a study of the existing banking system of the Philippines.

ECONOMIC ADJUSTMENT

- A. The Philippine Government should adopt a long-range economic adjustment program. This program should be formulated by a technical planning organization, semi-permanent in nature, non-administrative in character, and adequately staffed with competent technicians.
- B. The objectives of the economic adjustment program should be not only to offset insofar as possible the adverse effects of the discontinuance of existing trade preferences but also to increase the productivity, and thus the standard of living, of the people above the levels that would otherwise prevail.
- C. The economic adjustment program should include projects for the improvement of technical training, transportation facilities, agriculture, manufacturing, tariff schedules, public revenue systems, health conditions, and the conservation of natural resources. (The general criteria which should be observed in selecting projects for the program, and the Committee's various recommendations and suggestions concerning certain projects, are set forth in Part IV of this report.)

RIGHTS AND INTERESTS

- A. The United States and the Philippines, in both legislative and administrative action, should adhere, during the Commonwealth period, to the policy of not curtailing the rights and privileges which citizens

of the United States enjoyed in the Philippines, and which citizens of the Philippines enjoyed in the United States, prior to the inauguration of the Commonwealth Government.

- B. Arrangements should be made prior to July 4, 1946, for the adjustment and settlement of the property rights of the United States and the Philippines, referred to in Section 2 (b) (1) of the Independence Act.
- C. Arrangements should be made prior to July 4, 1946, under which title to such properties as the United States may require for its official establishments in the Philippines after independence would either be retroceded to the United States without compensation, or be acquired by the United States through an exchange of properties.

EFFECTUATION OF RECOMMENDATIONS

If the Committee's recommendations are accepted, it will be necessary for both the United States and the Philippines to enact legislation to give effect to certain of the recommendations applicable to the Commonwealth period, and to conclude a treaty or treaties to give effect to certain other recommendations applicable to the independence period beginning July 4, 1946. In addition to the need to negotiate a treaty or treaties for the aforementioned purpose, Section 2 (a) and (b) of the Independence Act specifies a number of provisions which are to be embodied

in a treaty. There are, moreover, a number of other matters for which provision should be made by treaty. The great variety of subjects to be dealt with makes it appear advisable to conclude a series of treaties covering separate subjects. (See Appendix IX.)

The Committee recommends, therefore, that negotiations with a view to concluding the necessary treaty or treaties be entered into with the Commonwealth Government prior to July 4, 1946, on the understanding that the exchange of ratifications shall take place, and the treaties become effective, on the day of the inauguration of the independent government. The Committee further recommends that the treaty embodying its recommendations concerning trade relations during the period beginning July 4, 1946, and ending with December 31, 1960, should be negotiated at the earliest practicable date, in order that the future trade relationship between the two countries may be definitely determined well in advance of independence. Such action would tend to ensure an orderly transition and a better opportunity for the adjustment of the Philippine national economy.

J. V. A. MacMurray,
Chairman

J. E. Jacobs

José Yulo

Louis Domeratzky

Joaquin M. Elizalde

Ben Dorfman

Quintin Paredes

D. C. McDonald

Benito Razon

Carl B. Robbins

José E. Romero

Frank A. Waring

Manuel Roxas

Washington, D. C., May 20, 1938.

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Washington, D. C., May 20, 1938

APPENDIX I

[Public--No. 127--73d Congress]

[H.R. 8573]

AN ACT

To provide for the complete independence of the Philippine Islands, to provide for the adoption of a constitution and a form of government for the Philippine Islands, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

CONVENTION TO FRAME CONSTITUTION FOR PHILIPPINE ISLANDS

SECTION 1. The Philippine Legislature is hereby authorized to provide for the election of delegates to a constitutional convention, which shall meet in the hall of the house of representatives in the capital of the Philippine Islands, at such time as the Philippine Legislature may fix, but not later than October 1, 1934, to formulate and draft a constitution for the government of the Commonwealth of the Philippine Islands, subject to the conditions and qualifications prescribed in this Act, which shall exercise jurisdiction over all the territory ceded to the United States by the treaty of peace concluded between the United States and Spain on the 10th day of December 1898, the boundaries of which are set forth in article III of said treaty, together with those islands embraced in the treaty between Spain and the United States concluded at Washington on the 7th day of November 1900. The Philippine Legislature shall provide for the necessary expenses of such convention.

CHARACTER OF CONSTITUTION--MANDATORY PROVISIONS

SEC. 2. (a) The constitution formulated and drafted shall be republican in form, shall contain a bill of rights, and shall, either as a part thereof or in an ordinance appended thereto, contain provisions to the effect that, pending the final and complete withdrawal of the sovereignty of the United States over the Philippine Islands--

(1) All citizens of the Philippine Islands shall owe allegiance to the United States.

(2) Every officer of the government of the Commonwealth of the Philippine Islands shall, before entering upon the discharge of his duties, take and subscribe an oath of office, declaring, among other things, that he recognizes and accepts the supreme authority of and will maintain true faith and allegiance to the United States.

(3) Absolute toleration of religious sentiment shall be secured and no inhabitant or religious organization shall be molested in

person or property on account of religious belief or mode of worship.

(4) Property owned by the United States, cemeteries, churches, and parsonages or convents appurtenant thereto, and all lands, buildings, and improvements used exclusively for religious, charitable, or educational purposes shall be exempt from taxation.

(5) Trade relations between the Philippine Islands and the United States shall be upon the basis prescribed in section 6.

(6) The public debt of the Philippine Islands and its subordinate branches shall not exceed limits now or hereafter fixed by the Congress of the United States; and no loans shall be contracted in foreign countries without the approval of the President of the United States.

(7) The debts, liabilities, and obligations of the present Philippine government, its Provinces, municipalities, and instrumentalities, valid and subsisting at the time of the adoption of the constitution, shall be assumed and paid by the new government.

(8) Provision shall be made for the establishment and maintenance of an adequate system of public schools, primarily conducted in the English language.

(9) Acts affecting currency, coinage, imports, exports, and immigration shall not become law until approved by the President of the United States.

(10) Foreign affairs shall be under the direct supervision and control of the United States.

(11) All acts passed by the Legislature of the Commonwealth of the Philippine Islands shall be reported to the Congress of the United States.

(12) The Philippine Islands recognizes the right of the United States to expropriate property for public uses, to maintain military and other reservations and armed forces in the Philippines, and, upon order of the President, to call into the service of such armed forces all military forces organized by the Philippine government.

(13) The decisions of the courts of the Commonwealth of the Philippine Islands shall be subject to review by the Supreme Court of the United States as provided in paragraph (6) of section 7.

(14) The United States may, by Presidential proclamation, exercise the right to intervene for the preservation of the government of the Commonwealth of the Philippine Islands and for the maintenance of the government as provided in the constitution thereof, and for the protection of life, property, and individual liberty and for the discharge of government obligations under and in accordance with the provisions of the constitution.

(15) The authority of the United States High Commissioner to the government of the Commonwealth of the Philippine Islands, as provided in this Act, shall be recognized.

(16) Citizens and corporations of the United States shall enjoy in the Commonwealth of the Philippine Islands all the civil rights of the citizens and corporations, respectively, thereof.

(b) The constitution shall also contain the following provisions, effective as of the date of the proclamation of the President recognizing the independence of the Philippine Islands, as hereinafter provided:

(1) That the property rights of the United States and the Philippine Islands shall be promptly adjusted and settled, and that all existing property rights of citizens or corporations of the United States shall be acknowledged, respected, and safeguarded to the same extent as property rights of citizens of the Philippine Islands.

(2) That the officials elected and serving under the constitution adopted pursuant to the provisions of this Act shall be constitutional officers of the free and independent government of the Philippine Islands and qualified to function in all respects as if elected directly under such government, and shall serve their full terms of office as prescribed in the constitution.

(3) That the debts and liabilities of the Philippine Islands, its Provinces, cities, municipalities, and instrumentalities, which shall be valid and subsisting at the time of the final and complete withdrawal of the sovereignty of the United States, shall be assumed by the free and independent government of the Philippine Islands; and that where bonds have been issued under authority of an Act of Congress of the United States by the Philippine Islands, or any Province, city, or municipality therein, the Philippine government will make adequate provision for the necessary funds for the payment of interest and principal, and such obligations shall be a first lien on the taxes collected in the Philippine Islands.

(4) That the government of the Philippine Islands, on becoming independent of the United States, will assume all continuing obligations assumed by the United States under the treaty of peace with Spain ceding said Philippine Islands to the United States.

(5) That by way of further assurance the government of the Philippine Islands will embody the foregoing provisions (except paragraph (2)) in a treaty with the United States.

SUBMISSION OF CONSTITUTION TO THE PRESIDENT OF THE UNITED STATES

SEC. 3. Upon the drafting and approval of the constitution by the constitutional convention in the Philippine Islands, the

constitution shall be submitted within two years after the enactment of this Act to the President of the United States, who shall determine whether or not it conforms with the provisions of this Act. If the President finds that the proposed constitution conform substantially with the provisions of this Act he shall so certify to the Governor General of the Philippine Islands, who shall so advise the constitutional convention. If the President finds that the constitution does not conform with the provisions of this Act he shall so advise the Governor General of the Philippine Islands, stating wherein in his judgment the constitution does not so conform and submitting provisions which will in his judgment make the constitution so conform. The Governor General shall in turn submit such message to the constitutional convention for further action by them pursuant to the same procedure hereinbefore defined, until the President and the constitutional convention are in agreement.

SUBMISSION OF CONSTITUTION TO FILIPINO PEOPLE

SEC. 4. After the President of the United States has certified that the constitution conforms with the provisions of this Act, it shall be submitted to the people of the Philippine Islands for their ratification or rejection at an election to be held within four months after the date of such certification, on a date to be fixed by the Philippine Legislature, at which election the qualified voters of the Philippine Islands shall have an opportunity to vote directly for or against the proposed constitution and ordinances appended thereto. Such election shall be held in such manner as may be prescribed by the Philippine Legislature, to which the return of the election shall be made. The Philippine Legislature shall by law provide for the canvassing of the return and shall certify the result to the Governor General of the Philippine Islands, together with a statement of the votes cast, and a copy of said constitution and ordinances. If a majority of the votes cast shall be for the constitution, such vote shall be deemed an expression of the will of the people of the Philippine Islands in favor of Philippine independence, and the Governor General shall, within thirty days after receipt of the certification from the Philippine Legislature, issue a proclamation for the election of officers of the government of the Commonwealth of the Philippine Islands provided for in the constitution. The election shall take place not earlier than three months nor later than six months after the proclamation by the Governor General ordering such election. When the election of the officers provided for under the constitution has been held and the results determined, the Governor General of the Philippine Islands shall certify the results of the election to the President of the United States, who shall thereupon issue a proclamation announcing the results of the election, and upon the issuance of such proclamation by the President the existing Philippine government shall terminate and the new government shall enter upon its rights, privileges, powers, and duties, as provided under the constitution. The present government of the Philippine Islands shall provide for the orderly transfer of the functions of

government.

If a majority of the votes cast are against the constitution, the existing government of the Philippine Islands shall continue without regard to the provisions of this Act.

TRANSFER OF PROPERTY AND RIGHTS TO PHILIPPINE COMMONWEALTH

SEC. 5. All the property and rights which may have been acquired in the Philippine Islands by the United States under the treaties mentioned in the first section of this Act, except such land or other property as has heretofore been designated by the President of the United States for Military and other reservations of the Government of the United States, and except such land or other property or rights or interests therein as may have been sold or otherwise disposed of in accordance with law, are hereby granted to the government of the Commonwealth of the Philippine Islands when constituted.

RELATIONS WITH THE UNITED STATES PENDING COMPLETE INDEPENDENCE

SEC. 6. After the date of the inauguration of the government of the Commonwealth of the Philippine Islands trade relations between the United States and the Philippine Islands shall be as now provided by law, subject to the following exceptions:

(a) There shall be levied, collected, and paid on all refined sugars in excess of fifty thousand long tons, and on unrefined sugars in excess of eight hundred thousand long tons, coming into the United States from the Philippine Islands in any calendar year, the same rates of duty which are required by the laws of the United States to be levied, collected, and paid upon like articles imported from foreign countries.

(b) There shall be levied, collected, and paid on all coconut oil coming into the United States from the Philippine Islands in any calendar year in excess of two hundred thousand long tons, the same rates of duty which are required by the laws of the United States to be levied, collected, and paid upon like articles imported from foreign countries.

(c) There shall be levied, collected, and paid on all yarn, twine, cord, cordage, rope and cable, tarred or untarred, wholly or in chief value of manila (abaca) or other hard fibers, coming into the United States from the Philippine Islands in any calendar year in excess of a collective total of three million pounds of all such articles hereinbefore enumerated, the same rates of duty which are required by the laws of the United States to be levied, collected, and paid upon like articles imported from foreign countries.

(d) In the event that in any year the limit in the case of any

article which may be exported to the United States free of duty shall be reached by the Philippine Islands, the amount or quantity of such articles produced or manufactured in the Philippine Islands thereafter that may be so exported to the United States free of duty shall be allocated, under export permits issued by the government of the Commonwealth of the Philippine Islands, to the producers or manufacturers of such articles proportionately on the basis of their exportation to the United States in the preceding year; except that in the case of unrefined sugar the amount thereof to be exported annually to the United States free of duty shall be allocated to the sugar-producing mills of the islands proportionately on the basis of their average annual production for the calendar years 1931, 1932, and 1933, and the amount of sugar from each mill which may be so exported shall be allocated in each year between the mill and the planters on the basis of the proportion of sugar to which the mill and the planters are respectively entitled. The government of the Philippine Islands is authorized to adopt the necessary laws and regulations for putting into effect the allocation hereinbefore provided.

(e) The government of the Commonwealth of the Philippine Islands shall impose and collect an export tax on all articles that may be exported to the United States from the Philippine Islands free of duty under the provisions of existing law as modified by the foregoing provisions of this section, including the articles enumerated in subdivisions (a), (b), and (c), within the limitations therein specified, as follows:

(1) During the sixth year after the inauguration of the new government the export tax shall be 5 per centum of the rates of duty which are required by the laws of the United States to be levied, collected, and paid on like articles imported from foreign countries;

(2) During the seventh year after the inauguration of the new government the export tax shall be 10 per centum of the rates of duty which are required by the laws of the United States to be levied, collected, and paid on like articles imported from foreign countries;

(3) During the eighth year after the inauguration of the new government the export tax shall be 15 per centum of the rates of duty which are required by the laws of the United States to be levied, collected, and paid on like articles imported from foreign countries;

(4) During the ninth year after the inauguration of the new government the export tax shall be 20 per centum of the rates of duty which are required by the laws of the United States to be levied, collected, and paid on like articles imported from foreign countries;

(5) After the expiration of the ninth year after the inauguration of the new government the export tax shall be 25 per centum of the rates of duty which are required by the laws of the United States to be levied, collected, and paid on like articles imported from foreign countries.

The government of the Commonwealth of the Philippine Islands shall place all funds received from such export taxes in a sinking fund, and such funds shall, in addition to other moneys available for that purpose, be applied solely to the payment of the principal and interest on the bonded indebtedness of the Philippine Islands, its provinces, municipalities, and instrumentalities, until such indebtedness has been fully discharged.

When used in this section in a geographical sense, the term "United States" includes all Territories and possessions of the United States, except the Philippine Islands, the Virgin Islands, American Samoa, and the island of Guam.

SEC. 7. Until the final and complete withdrawal of American sovereignty over the Philippine Islands--

(1) Every duly adopted amendment to the constitution of the government of the Commonwealth of the Philippine Islands shall be submitted to the President of the United States for approval. If the President approves the amendment or if the President fails to disapprove such amendment within six months from the time of its submission, the amendment shall take effect as a part of such constitution.

(2) The President of the United States shall have authority to suspend the taking effect of or the operation of any law, contract, or executive order of the government of the Commonwealth of the Philippine Islands, which in his judgment will result in a failure of the government of the Commonwealth of the Philippine Islands to fulfill its contracts, or to meet its bonded indebtedness and interest thereon or to provide for its sinking funds, or which seems likely to impair the reserves for the protection of the currency of the Philippine Islands, or which in his judgment will violate international obligations of the United States.

(3) The Chief Executive of the Commonwealth of the Philippine Islands shall make an annual report to the President and Congress of the United States of the proceedings and operations of the government of the Commonwealth of the Philippine Islands and shall make such other reports as the President or Congress may request.

(4) The President shall appoint, by and with the advice and consent of the Senate, a United States High Commissioner to the government of the Commonwealth of the Philippine Islands who shall hold office at the pleasure of the President and until his successor is appointed and qualified. He shall be known as the United States

High Commissioner to the Philippine Islands. He shall be the representative of the President of the United States in the Philippine Islands and shall be recognized as such by the government of the Commonwealth of the Philippine Islands, by the government of officers of the military forces of the United States, and by all civil officials of the United States in the Philippine Islands. He shall have access to all records of the government or any subdivision thereof, and shall be furnished by the Chief Executive of the Commonwealth of the Philippine Islands with such information as he shall request.

If the government of the Commonwealth of the Philippine Islands fails to pay any of its bonded or other indebtedness or the interest thereon when due or to fulfill any of its contracts, the United States High Commissioner shall immediately report the facts to the President, who may thereupon direct the High Commissioner to take over the customs offices and administration of the same, administer the same, and apply such part of the revenue received therefrom as may be necessary for the payment of such overdue indebtedness or for the fulfillment of such contracts. The United States High Commissioner shall annually, and at such other times as the President may require, render an official report to the President and Congress of the United States. He shall perform such additional duties and functions as may be delegated to him from time to time by the President under the provisions of this Act.

The United States High Commissioner shall receive the same compensation as is now received by the Governor General of the Philippine Islands, and shall have such staff and assistants as the President may deem advisable and as may be appropriated for by Congress, including a financial expert, who shall receive for submission to the High Commissioner a duplicate copy of the reports of the insular auditor. Appeals from decisions of the insular auditor may be taken to the President of the United States. The salaries and expenses of the High Commissioner and his staff and assistants shall be paid by the United States.

The first United States High Commissioner appointed under this Act shall take office upon the inauguration of the new government of the Commonwealth of the Philippine Islands.

(5) The government of the Commonwealth of the Philippine Islands shall provide for the selection of a Resident Commissioner to the United States, and shall fix his term of office. He shall be the representative of the government of the Commonwealth of the Philippine Islands and shall be entitled to official recognition as such by all departments upon presentation to the President of credentials signed by the Chief Executive of said government. He shall have a seat in the House of Representatives of the United States, with the right of debate, but without the right of voting. His salary and expenses shall be fixed and paid by the government of the Philippine Islands. Until a Resident Commissioner is selected

and qualified under this section, existing law governing the appointment of Resident Commissioners from the Philippine Islands shall continue in effect.

(6) Review by the Supreme Court of the United States of cases from the Philippine Islands shall be as now provided by law; and such review shall also extend to all cases involving the constitution of the Commonwealth of the Philippine Islands.

SEC. 8. (a) Effective upon the acceptance of this Act by concurrent resolution of the Philippine Legislature or by a convention called for that purpose, as provided in section 17--

(1) For the purposes of the Immigration Act of 1917, the Immigration Act of 1924 (except section 13 (c)), this section, and all other laws of the United States relating to the immigration, exclusion, or expulsion of aliens, citizens of the Philippine Islands who are not citizens of the United States shall be considered as if they were aliens. For such purposes the Philippine Islands shall be considered as a separate country and shall have for each fiscal year a quota of fifty. This paragraph shall not apply to a person coming or seeking to come to the Territory of Hawaii who does not apply for and secure an immigration or passport visa, but such immigration shall be determined by the Department of the Interior on the basis of the needs of industries in the Territory of Hawaii.

(2) Citizens of the Philippine Islands who are not citizens of the United States shall not be admitted to the continental United States from the Territory of Hawaii (whether entering such Territory before or after the effective date of this section) unless they belong to a class declared to be nonimmigrants by section 3 of the Immigration Act of 1924 or to a class declared to be nonquota immigrants under the provisions of section 4 of such Act other than subdivision (c) thereof, or unless they were admitted to such Territory under an immigration visa. The Secretary of Labor shall by regulations provide a method for such exclusion and for the admission of such excepted classes.

(3) Any Foreign Service officer may be assigned to duty in the Philippine Islands, under a commission as a consular officer, for such period as may be necessary and under such regulations as the Secretary of State may prescribe, during which assignment such officer shall be considered as stationed in a foreign country; but his powers and duties shall be confined to the performance of such of the official acts and notarial and other services, which such officer might properly perform in respect of the administration of the immigration laws if assigned to a foreign country as a consular officer, as may be authorized by the Secretary of State.

(4) For the purposes of sections 18 and 20 of the Immigration Act of 1917, as amended, the Philippine Islands shall be considered to be a foreign country.

(b) The provisions of this section are in addition to the provisions of the immigration laws now in force, and shall be enforced as a part of such laws, and all the penal or other provisions of such laws not inapplicable, shall apply to and be enforced in connection with the provisions of this section. An alien, although admissible under the provisions of this section, shall not be admitted to the United States if he is excluded by any provision of the immigration laws other than this section, and an alien, although admissible under the provisions of the immigration laws other than this section, shall not be admitted to the United States if he is excluded by any provision of this section.

(c) Terms defined in the Immigration Act of 1924 shall, when used in this section, have the meaning assigned to such terms in that Act.

SEC. 9. There shall be no obligation on the part of the United States to meet the interest or principal of bonds and other obligations of the government of the Philippine Islands or of the Provincial and municipal governments thereof, hereafter issued during the continuance of United States sovereignty in the Philippine Islands: Provided, That such bonds and obligations hereafter issued shall not be exempt from taxation in the United States or by authority of the United States.

RECOGNITION OF PHILIPPINE INDEPENDENCE AND WITHDRAWAL OF AMERICAN SOVEREIGNTY

SEC. 10. (a) On the 4th day of July immediately following the expiration of a period of ten years from the date of the inauguration of the new government under the constitution provided for in this Act the President of the United States shall by proclamation withdraw and surrender all right of possession, supervision, jurisdiction, control, or sovereignty then existing and exercised by the United States in and over the territory and people of the Philippine Islands, including all military and other reservations of the Government of the United States in the Philippines (except such naval reservations and fueling stations as are reserved under section 5), and, on behalf of the United States, shall recognize the independence of the Philippine Islands as a separate and self-governing nation and acknowledge the authority and control over the same of the government instituted by the people thereof, under the constitution then in force.

(b) The President of the United States is hereby authorized and empowered to enter into negotiations with the government of the Philippine Islands, not later than two years after his proclamation recognizing the independence of the Philippine Islands, for the adjustment and settlement of all questions relating to naval reservations and fueling stations of the United States in the Philippine Islands, and pending such adjustment and settlement the matter of

naval reservations and fueling stations shall remain in its present status.

NEUTRALIZATION OF PHILIPPINE ISLANDS

SEC. 11. The President is requested, at the earliest practicable date, to enter into negotiations with foreign powers with a view to the conclusion of a treaty for the perpetual neutralization of the Philippine Islands, if and when Philippine independence shall have been achieved.

NOTIFICATION TO FOREIGN GOVERNMENTS

SEC. 12. Upon the proclamation and recognition of the independence of the Philippine Islands, the President shall notify the governments with which the United States is in diplomatic correspondence thereof and invite said governments to recognize the independence of the Philippine Islands.

TARIFF DUTIES AFTER INDEPENDENCE

SEC. 13. After the Philippine Islands have become a free and independent nation there shall be levied, collected, and paid upon all articles coming into the United States from the Philippine Islands the rates of duty which are required to be levied, collected, and paid upon like articles imported from other foreign countries: Provided, That at least one year prior to the date fixed in this Act for the independence of the Philippine Islands, there shall be held a conference of representatives of the Government of the United States and the government of the Commonwealth of the Philippine Islands, such representatives to be appointed by the President of the United States and the Chief Executive of the Commonwealth of the Philippine Islands, respectively, for the purpose of formulating recommendations as to future trade relations between the Government of the United States and the independent government of the Philippine Islands, the time, place, and manner of holding such conference to be determined by the President of the United States; but nothing in this proviso shall be construed to modify or affect in any way any provision of this Act relating to the procedure leading up to Philippine independence or the date upon which the Philippine Islands shall become independent.

IMMIGRATION AFTER INDEPENDENCE

SEC. 14. Upon the final and complete withdrawal of American sovereignty over the Philippine Islands the immigration laws of the United States (including all the provisions thereof relating to persons ineligible to citizenship) shall apply to persons who were born in the Philippine Islands to the same extent as in the case of other foreign countries.

CERTAIN STATUTES CONTINUED IN FORCE

SEC. 15. Except as in this Act otherwise provided, the laws now or hereafter in force in the Philippine Islands shall continue in force in the Commonwealth of the Philippine Islands until altered, amended, or repealed by the Legislature of the Commonwealth of the Philippine Islands or by the Congress of the United States, and all references in such laws to the government or officials of the Philippines or Philippine Islands shall be construed, insofar as applicable, to refer to the government and corresponding officials respectively of the Commonwealth of the Philippine Islands. The government of the Commonwealth of the Philippine Islands shall be deemed successor to the present government of the Philippine Islands and of all the rights and obligations thereof. Except as otherwise provided in this Act, all laws or parts of laws relating to the present government of the Philippine Islands and its administration are hereby repealed as of the date of the inauguration of the government of the Commonwealth of the Philippine Islands.

SEC. 16. If any provision of this Act is declared unconstitutional or the applicability thereof to any person or circumstance is held invalid, the validity of the remainder of the Act and the applicability of such provisions to other persons and circumstances shall not be affected thereby.

EFFECTIVE DATE

SEC. 17. The foregoing provisions of this Act shall not take effect until accepted by concurrent resolution of the Philippine Legislature or by a convention called for the purpose of passing upon that question as may be provided by the Philippine Legislature.

Approved, March 24, 1934.

APPENDIX II

DEPARTMENT OF STATE

FOR THE PRESS

MAY 24, 1937

The following is the text of a letter from Mr. Francis B. Sayre, Chairman of the Interdepartmental Committee on Philippine Affairs to Senator Tydings, Chairman of the Senate Committee on Territories and Insular Affairs. A similar letter was sent to Leo Kocialkowski, Chairman of the House Committee on Insular Affairs.

Washington, D. C.
May 24, 1937.

"The Honorable
Millard E. Tydings,
United States Senate.

My dear Senator Tydings:

"As promised in the conversation which the Secretary of War and I had with you on February 23, 1937, with regard to the approaching visit of President Quezon of the Philippine Commonwealth and the expected discussions between him and the Interdepartmental Committee on Philippine Affairs, I now wish to acquaint you and the other members of the Senate Committee on Territories and Insular Affairs with the progress and results of the discussions which ensued. In so doing, I feel that it is desirable to review some of the circumstances which led up to these discussions.

"The Tydings-McDuffie Independence Act, approved on March 24, 1934, provides the arrangements which control and guide, until July 4, 1946, the relationship which exists between the Government of the United States and the Commonwealth Government of the Philippines set up on November 15, 1935. This Act did not become effective, as you know, until its provisions were accepted by concurrent resolution of the Philippine Legislature on May 1, 1934. In this resolution it was stated that, in accepting the Tydings-McDuffie Act, the Legislature relied upon a statement of President Roosevelt which gives to the Filipino people reasonable assurances of further hearing

and due consideration of their views'.¹

"The statement of President Roosevelt referred to was that contained in his message to Congress on March 2, 1934, recommending the enactment of the Tydings-McDuffie Act, as follows:

'I do not believe that other provisions of the original law need be changed at this time. Where imperfections or inequalities exist, I am confident that they can be corrected after proper hearing and in fairness to both peoples.'²

"Provisions in the earlier Hare-Hawes-Cutting Act to which the Philippine Legislature took exception, in rejecting that Act, and which they hoped to have corrected in the Tydings-McDuffie Act, related 'to immigration, military, and other reservations, powers of the high commissioner, and trade relations between the islands and the United States.'³

"With regard to the Tydings-McDuffie Act, the Honorable Manuel L. Quezon, then President of the Philippine Senate and Chairman of the Philippine Independence Delegation, in a letter to you, dated March 22, 1934, two days before the passage of the Act, stated as follows:

'There are, of course, other provisions of the bill to which we object, but we are willing to take it as it is now, and we have given up any attempt at this time to have it in any way amended, because we are relying upon the statement made by the President in his message to Congress, March 2, 1934 * * *

'Furthermore, we have seen the attitude of the chairmen of both committees of Congress toward the Filipino people's freedom and welfare, and we have no doubt that upon further investigation, when they shall have found that independence can be granted in a much shorter time and that other provisions of the bill need improvement, they will so recommend to the Congress.'⁴

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1. House Document No. 400, 74th Congress, 2d Session, page 1.
 2. House Document No. 272, 73d Congress, 2d Session.
 3. Senate Document No. 57, Part 1, page 10, 74th Congress, 1st Session.
 4. Congressional Record, Volume 78, March 22, 1934, No. 64, page 5237.

"Moreover, Vice President John N. Garner, in his speech at the Joint Session of the Philippine Legislature on November 12, 1935 (three days before the inauguration of the Commonwealth Government), stated in regard to 'inequalities in our trade relations' as follows:

'Our great President, Franklin D. Roosevelt, in sending the last independence bill to Congress, accompanied it with a recommendation that where there were inequalities in our trade relations, they should be adjusted by a Commission representing both peoples who could arrive at an equitable decision which would prove advantageous to our 120,000,000 people and to your 14,000,000 people.'⁵

"The statements quoted evidence a feeling on the part of responsible persons in both countries that certain 'imperfections or inequalities' may be found, upon further study, to exist in the Independence Act. These so-called imperfections or inequalities in regard to future relationships have been regarded as being susceptible of adjustment through joint study and conference.

"Contemporaneously with the recognition that imperfections and inequalities might exist in the Independence Act, an Interdepartmental Committee on Philippine Affairs was set up in December, 1934. Acting upon a suggestion made by you and Senators McKellar, McAdoo and Gibson in a joint telegram to President Roosevelt, this Committee began in January, 1935, a study of United States-Philippine trade relations.⁶ Since that time, this Interdepartmental Committee has been studying Philippine problems and coordinating the activities of the various administrative departments and agencies of the United States Government concerned with Philippine affairs. In the recent discussions with President Quezon, the deliberations of the Interdepartmental Committee have been attended by representatives of the Departments of State, War, Navy, Treasury, Agriculture, Commerce, and the Tariff Commission. It is the opinion of this Committee, as well as of President Quezon, that, in justice to the United States and to the Philippines, uncertainties and misconceptions in regard to the future political and economic relations between the two countries should be removed as soon as practicable. Until these uncertainties are removed, necessary economic adjustments in the Islands will be delayed.

"The Interdepartmental Committee is also of the opinion, on the basis of evidence now available, that certain modifications in existing legislation may be necessary to facilitate the adjustment of Philippine economy to a position independent of preferences in the United States market. However, the Committee cannot, until further study has been given the subject, recommend the specific adjustments which should be under-

5. House Document No. 400, page 44, 74th Congress, 2d Session.

6. Joint Telegram, dated December 31, 1934, from Manila.

taken, nor can it estimate the period of time which will be required for making such adjustments. Much study has been devoted to a consideration of these matters by both the United States and the Philippine Governments, but no joint program has been formulated.

"In addition to the problems involved in the adjustment of the national economy of the Philippines, there are comparable problems involved in providing an adjustment of American export trade to a non-preferential, competitive position in the Philippine market. According to the terms of the Independence Act, American producers and export interests will be faced with an abrupt transition, on July 4, 1946, from a condition of free access to the Philippine market to one in which full Philippine tariff duties apply. The problems involved in this adjustment should likewise be studied.

"A recognition of these problems led the Interdepartmental Committee to the conclusion that it was desirable that a joint committee of American and Philippine experts be set up to study the problems and to formulate recommendations looking toward the correction of any 'imperfections or inequalities' which might be found to exist in the present arrangements. President Roosevelt concurred in the proposal that the committee be created and he approved the appointment of the American members of the Committee. This Joint Committee held its first meeting on April 19, 1937, and is now carrying on its studies.

"The Joint Committee will conduct its studies with the general understanding (agreed upon between the Interdepartmental Committee and President Quezon) that preferential trade relations between the United States and the Philippines will be terminated at the earliest practicable date consistent with affording the Philippines a reasonable opportunity to adjust their national economy. This does not mean that preferential tariff rates or preferential excise rates will be withdrawn prior to July 4, 1946, the date for complete independence fixed by the terms of the Independence Act. The studies of the Joint Committee will be based on the assumption that trade preferences will be terminated on that date or as soon as practicable thereafter, having in mind the difficult task of economic adjustment with which the Islands appear to be faced as trade preferences are withdrawn.

"President Quezon, as you doubtless know, has suggested advancement of the date of independence to December, 1938, or July 4, 1939. With reference to this suggestion, the Interdepartmental Committee and President Quezon have agreed that, insofar as they are authorized to speak, complete political independence of the Philippines shall become effective not later than July 4, 1946, the date fixed under the terms of the Independence Act. The Joint Committee, however, is instructed, in making its recommendations, to consider the bearing an advancement in the date of political independence to 1938 or 1939 would have on determining the date of termination of trade preferences between the

United States and the Philippine Islands and on facilitating or retarding the execution of a program of economic adjustment in the Philippines. Legislation by Congress would, of course, be required to effect any change in the date of independence.

"The functions of the Joint Committee, in general, are to consider proposals which have been made for changing the political and economic relations of the United States with the Philippines; to hold public hearings for interested parties both in the United States and in the Philippines; to study the problem of making adjustments in Philippine economy; to prepare the way for a trade conference; and to make recommendations. Among the problems which will be given consideration by the Joint Committee are the following:

"The character of the trade preferences which should exist for a specified, limited period.

"The precise arrangements for governing the trade relations between the United States and the Philippine Islands after the termination of preferential trade relations.

"Economic adjustments that could be undertaken in the Philippines and methods of executing and financing such adjustments.

"The need or appropriateness of changes in the Philippine currency and banking system, and in the provisions for servicing Philippine bonded indebtedness, that may be required to implement the plan for economic adjustment recommended by the Joint Committee.

"Adequate protection of the rights and interests of the United States and its citizens in the Philippines and of the Philippines and its citizens in the United States after the attainment of independence.

"The bearing which the possible negotiation of the neutralization agreement provided for in Section 11 of the Tydings-McDuffie Independence Act would have on the problems studied by the Joint Committee.

"It is anticipated that the report and recommendations of the Joint Committee will be submitted sometime before the close of 1937 to the President of the United States through the Inter-departmental Committee on Philippine Affairs and to the President of the Commonwealth Government. It is hoped that this report may be available in ample time for consideration by the Congress and by the Philippine Assembly this coming autumn and winter.

"For over a quarter of a century successive administrations of our Government have based their policy with reference to the Philippines upon an abiding confidence in the ability of the Philippine people ultimately to govern themselves as a free and independent nation. The task is one which involves problems of great magnitude. These problems are not merely those relating to trade between the two peoples but political and economic considerations of far-reaching significance to the United States, to the Philippines, and to all nations having interests in the Far East. The attainment of the objectives which both peoples have had in mind will require patience, a sense of fair play, and cooperation. It is believed that the leaders of both peoples, imbued with the highest ideals, will be able to surmount the difficulties that yet lie ahead of them. I can assure you that, with such ideals in mind, the Joint Committee will endeavor to make some contribution toward the successful conclusion of this great undertaking.

"In view of the public interest in the problem, especially at this time, you may care to make this letter and its enclosures a matter of record for the information of Congress and the public.

"Sincerely yours,

(Signed) "FRANCIS B. SAYRE
Chairman, Interdepartmental
Committee on Philippine
Affairs.

APPENDIX III

Recommendations for Increase in Philippine Import Duties

Philippine
Tariff Act
paragraph

		<u>Present rate</u>	<u>Recommended rate</u>
267	Evaporated milk -----	10% ad valorem	25% ad valorem
212	Fish, in cans, glass or jars - (a) Cod, herring, mullet, haddock, salmon, mackerel, sardines -----	15% ad valorem	25% ad valorem
	(b) Other common preserved fish, shell-fish, and seafood -----	20% ad valorem	25% ad valorem
97, 98, 99, 100	Cotton textiles, as shown below 1/		

Paragraph 97

<u>Schedule</u>	<u>Present rate</u>	<u>Recommended rate</u>
(a) Up to 10 threads	\$0.10	\$0.14
(b) Over 10 to 15	.10	.16
(c) Over 15 to 20	.10-.14	.19
(d) Over 20 to 24	.14	.22
(e) Over 24 to 28	.14	.26
(f) Over 28 to 32	.14-.20	.30
(g) Over 32 to 36	.20	.35
(h) Over 36 to 40	.20-.26	.40
(i) Over 40 to 44	.26	.45
(j) Over 44 to 48	.32	.50
(k) Over 48 to 52	.32	.55
(l) Over 52 to 56	.32	.60
(m) Over 56 to 60	.32	.65
(n) Over 60	.32	.70

1/ When the increased duties herein provided become effective, the Japanese Gentleman's Agreement limiting the shipment of cotton textiles to the Philippines will, as provided therein, no longer be operative.

Paragraph 98

<u>Schedule</u>	<u>Present rate</u>	<u>Recommended rate</u>
(a) Up to 10 threads	\$0.18	\$0.27
(b) Over 10 to 15	.18	.31
(c) Over 15 to 20	.18-.27	.35
(d) Over 20 to 24	.27	.40
(e) Over 24 to 28	.27	.45
(f) Over 28 to 32	.27-.34	.50
(g) Over 32 to 36	.34	.55
(h) Over 36 to 40	.34-.40	.61
(i) Over 40 to 44	.40	.67
(j) Over 44 to 48	.50	.73
(k) Over 48 to 52	.50	.79
(l) Over 52 to 56	.50	.85
(m) Over 56 to 60	.50	.91
(n) Over 60	.50	.97

Paragraph 99

<u>Schedule</u>	<u>Present rate</u>	<u>Recommended rate</u>
(a) Up to 10 threads	\$0.14	\$0.21
(b) Over 10 to 15	.14	.24
(c) Over 15 to 20	.14-.18	.28
(d) Over 20 to 24	.18	.32
(e) Over 24 to 28	.18	.37
(f) Over 28 to 32	.18-.24	.43
(g) Over 32 to 36	.24	.49
(h) Over 36 to 40	.24-.30	.55
(i) Over 40 to 44	.30	.61
(j) Over 44 to 48	.34	.67
(k) Over 48 to 52	.34	.73
(l) Over 52 to 56	.34	.79
(m) Over 56 to 60	.34	.85
(n) Over 60	.34	.91

Paragraph 100

<u>Schedule</u>	<u>Present rate</u>	<u>Recommended rate</u>
(a) Up to 10 threads	\$0.24	\$0.36
(b) Over 10 to 15	.24	.41
(c) Over 15 to 20	.24-.32	.46
(d) Over 20 to 24	.32	.52
(e) Over 24 to 28	.32	.58
(f) Over 28 to 32	.42	.64
(g) Over 32 to 36	.42	.70
(h) Over 36 to 40	.42-.52	.76
(i) Over 40 to 44	.52	.83
(j) Over 44 to 48	.60	.90
(k) Over 48 to 52	.60	.97
(l) Over 52 to 56	.60	1.04
(m) Over 56 to 60	.60	1.11
(n) Over 60	.60	1.18

Surtaxes on Cotton Textiles

<u>Paragraphs 97 and 99</u>	<u>Present rate</u>	<u>Recommended rate</u>
Bleached and dyed in the piece ----	None	20 percent
Manufactured with dyed yarn -----	30 percent	30 percent
Stamped or printed -----	30 percent	40 percent

Paragraphs 98 and 100

Bleached and dyed in the piece ----	None	30 percent
Manufactured with dyed yarn -----	40 percent	40 percent
Stamped or printed -----	40 percent	50 percent